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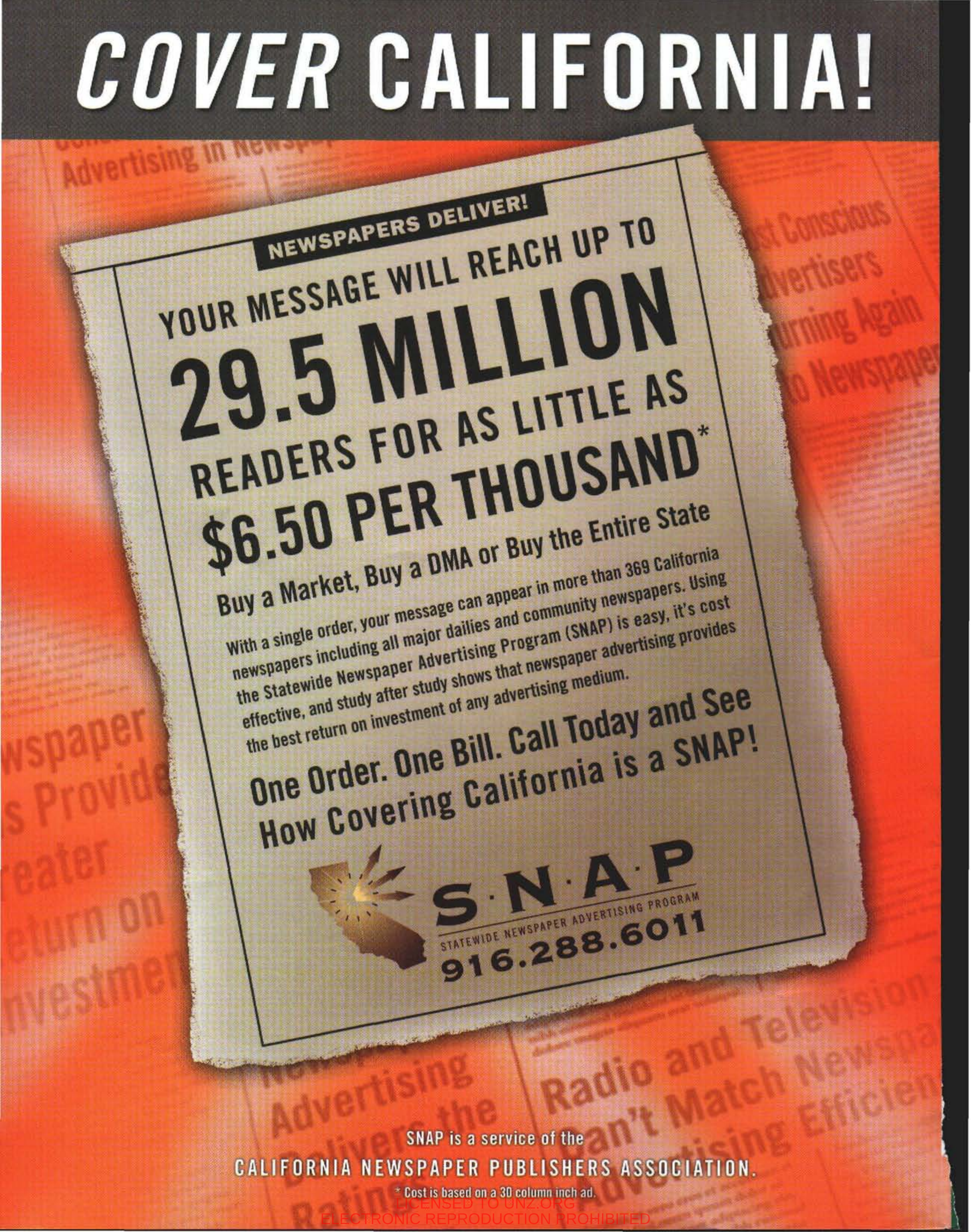
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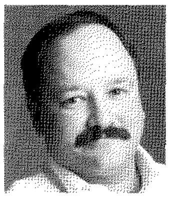
from the editor

Farewell

There is a vision and a dream at *California Journal*. The vision is that public policy journalism will increase civic participation and improve the opportunity for quality decision-making. The dream is about a magazine that fills that role with unique coverage about the issues we face together as Californians. I will always share both. But with this issue, I'm leaving *California Journal*. When I became editor two years ago, I said I was humbled by the responsibility and inspired by the opportunity. California has always been "The Great Exception," but today it is truly on the cusp of history, forging a new future for itself and setting an example for the world. What a great story to tell. A new California is being made once again. In this magazine's 34-year history, there has never been a time when the vision and the dream of *California Journal* was more important. As the next editor, A.G. Block, describes on page 36 of this issue, changes are underway at the magazine. I wish it all the best.

David Lesher



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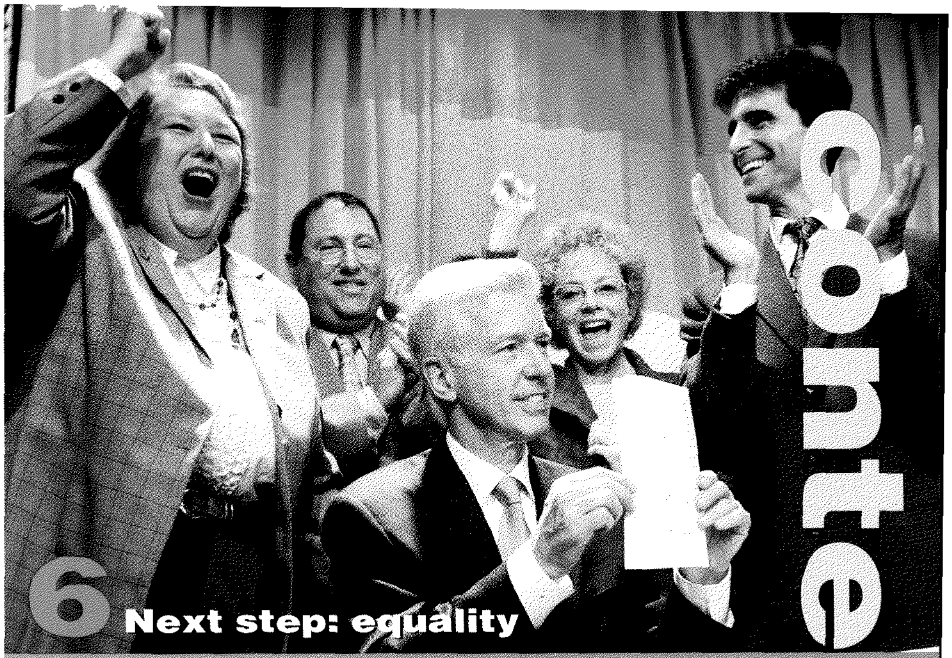

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The frontier for gay politics has moved from criminal laws to anti-discrimination to domestic rights and marriage. **By Bill Ainsworth**

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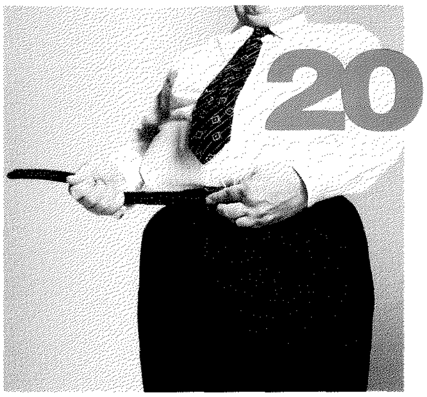
With a $15 billion bond headed for the March ballot, California will carry more debt than almost any other large state. **By Shane Peterson**



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An update on key spending categories as Governor Schwarzenegger prepares to introduce his first state budget. **By CJ editors, William Kelly and Stephen Robitaille**

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The UC promise

Robert Dynes, the new president of the University of California system, will have to recast the UC promise in an era of tight budgets and growing populations. **By Pamela Burdman**

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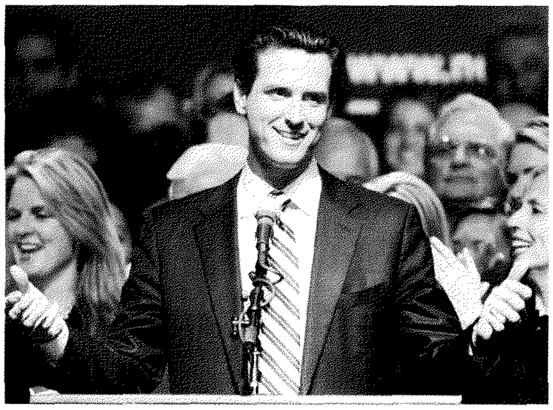
Cover photo: Dale Durfee, Gettyimages

upfront

umbrage

Mayor Gavin. When Democrat Gavin Newsom qualified for the runoff San Francisco mayoral election, it was expected that he'd walk away with the contest easily. After all, Newsom's closest rival — San Francisco Board of Supervisors President and Green Party member Matt Gonzalez — qualified for the runoff with a paltry 19.5%, over 20% less than Newsom. And not only did Newsom plan to raise almost $4 million for the race, he also had the support of every significant San Francisco political power player — from U.S. Sen. Dianne Feinstein to outgoing mayor Willie Brown. But energized by polls showing a close race, Gonzalez the Green waged an effective campaign that sliced liberal Democratic support from the frontrunner. Panicky national Democrats took notice — in the closing weeks of the election former Vice President Al Gore and former President Bill Clinton went to San Francisco to stump for Newsom and, in the end, it was enough to stem the Gonzalez tide. Newsom won the election by five points.



Mayor Elect Gavin Newsom gives his acceptance speech. Photo: Susan Ragan, Reuters, 12/10/03.

A vital legislator. Thomas Rees, a leader in the Democratic political resurgence of the mid-20th century, died Dec. 9 in his home near Santa Cruz. Rees, a passionate liberal Democrat with a light touch, was elected to the Assembly from a Beverly Hills district in 1954 when he was only 29. He became friends of another freshman, Assemblyman Jesse M. Unruh, and became a vital ally in Unruh's subsequent successful drive to the speakership. In 1962, Rees was elected to the state Senate where he represented all of Los Angeles before a court-ordered reapportionment based on "one-man, one-vote" took effect. He won a special election for a congressional seat in 1965 and spent six terms in the House. Rees was popular in the House, where his gentle manner and self-deprecating wit won friends on both sides of the aisle. Rees often said, however, that he had a greater impact in the compact Legislature of Sacramento than he ever did in Washington. Disillusioned with the cynicism that pervaded politics in the wake of the Watergate scandal, Rees retired from Congress in 1976. He continued for the rest of his life to help and inspire Democratic candidates and speak out on behalf of civil liberties and progressive causes.

Queen Maria. Lost in all the hubbub concerning the first budget-related deal between Gov. Arnold Schwarzenegger and Democratic lawmakers was the news that Schwarznegger's wife, Maria Shriver, played a direct role in brokering the agreement between the two sides. *The Los Angeles Times* reported that Shriver — who still works as an NBC broadcaster — consulted with Leon Panetta, former chief of staff to President Clinton and then pressed her governor-husband and members of his staff to get back to the negotiating table after Schwarzenegger's first attempt at a mid-year budget package failed. The resulting deal, made without Republican lawmakers at the negotiating table, headed off the possibility that the new governor would take his original proposal directly to the voters.

Correction

An article in the November issue of *California Journal* erroneously listed PacifiCare Health Systems as a client of Kahl/Pownall Advocates.

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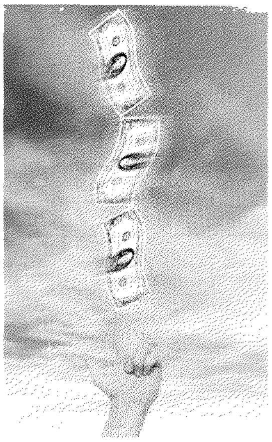
The Legislature's Spending:



As the Legislature prepares to cut billions of dollars from state programs this year, its own $200 million budget is once again a topic for consideration. By law, the Legislature must publish a report on spending by individual lawmakers and committees each November. But the report, known as an AB23, is notoriously difficult to follow. Some expenses or staff are charged to committees, some to individual offices, for example. What follows are highlights of how the Legislature reported its spending to the public last November. The report covers the period from December 1, 2001 to November 30, 2002.

The Sacramento Delegation

Per diem and cars are intended to help lawmakers pay living expenses when they have to leave home to work in Sacramento. Some local lawmakers took benefits even without leaving home.

	Per diem	Car
Sen. Deborah Ortiz (D-Sac.)	$0	$4,158
Assm. Darrell Steinberg (D-Sac.)	$0	$2,982
Assm. Dave Cox (R-Fair Oaks)	$27,255	$0
Assm. Helen Thomson (D-Davis)	$0	$4,800

Gas & Oil

Senate

Avg.	$1,540
Total	$61,604
Top 3	
Sen. Bruce McPherson (R-Santa Cruz)	$3,352
Sen. Maurice Johannessen (R-Redding)	$3,271
Sen. Mike Machado (D-Linden)	$2,991

Assembly

Avg.	$1,762
Total	$141,009
Top 3	
Assm. Mike Briggs (R-Clovis)	$5,485
Assm. Tony Gardenas (D-Sylmar)	$3,951
Assm. Dennis Cardoza (D-Merced)	$3,892

Postage

Senate

Avg.	$7,186
Total	$287,465
Top 3	
Sen. Ray Haynes (R-Riverside)	$29,840
Sen. Kevin Murray (D-Los Angeles)	$23,249
Sen. Martha Escutia (D-Whittier)	$22,270

Assembly

Avg.	$3,255
Total	$260,443
Top 3	
Assm. Robt. Hertzberg (D-Sherman Oaks)	$10,407
Assm. Lou Correa (D-Anaheim)	$8,788
Assm. Dave Cox (R-Fair Oaks)	$8,693

No Cars

Every legislator is allowed a car lease, but not all of them took it.

- Sen. Joe Dunn (D-Santa Ana)
- Sen. Sheila Kuehl (D-Santa Monica)
- Assm. John Campbell (R-Irvine)
- Assm. Dave Cox (R-Fair Oaks)
- Assm. John Dutra (D-Fremont)
- Assm. Carol Liu (D-La Canada)
- Assm. Howard Wayne (D-San Diego)
- Assm. Mark Wyland (R-Del Mar)

Out of State Travel

Senate

Avg.	$2,459
Total	$98,358
Top 3	
Sen. Kevin Murray (D-Los Angeles)	$13,971
Sen. Debra Bowen (D-Marina del Rey)	$12,718
Sen. Betty Karnette (D-Long Beach)	$9,462

No travel reported: Nine senators

Assembly

Avg.	$1,183
Total	$94,711
Top 3	
Assm. Herb Wesson (D-Culver City)	$11,742
Assm. Dion Aroner (D-Berkeley)	$5,856
Assm. Carl Washington (D-Paramount)	$5,445

No travel reported: 36 Assembly members

District Office

Senate

Avg.	$33,343
Total	$1,333,720
Top 3	
Sen. Sheila Kuehl (D-Santa Monica)	$68,206
Sen. Kevin Murray (D-Los Angeles)	$63,608
Sen. Tom Torlakson (D-Antioch)	$63,112*

Assembly

Avg.	$33,909
Total	$2,712,775
Top 3	
Assm. Joe Simitian (D-Palo Alto)	$104, 487
Assm. Herb Wesson (D-Culver City)	$86,138
Assm. Rebecca Cohn (D-Saratoga)	$76,684

* Had more than one office

NEXT STEP: EQUALITY

Gay politics has come a long way, from criminal sanctions to anti-discrimination laws and now domestic rights and marriage. While the issue is still a flashpoint for partisan politics nationally, California is in the forefront of change.

By Bill Ainsworth

It was 1975, and Mervyn Dymally had just made history by becoming California's first black lieutenant governor. He was about to make history again.

Dymally was in Colorado visiting the nation's only other black lieutenant governor when he learned that several California legislative leaders were trying to call him. Finally, a Colorado state trooper told Dymally it was urgent that he return the calls. Soon after talking to Senate President Pro Tempore George Moscone, Dymally was flying to San Francisco and then taking a California Highway Patrol helicopter to Sacramento, where he was escorted to the Senate chambers.

Inside the chambers, the Senate was literally locked in a stalemate over getting rid of a law that made gay sex illegal, a law that had terrorized the gay community for years and turned some gay citizens into outlaws merely for engaging in consensual sex. Moscone locked the doors and refused to let members go home until Dymally, in his capacity as president of the Senate, could break the tie.

"I walked in there and you could feel the chemistry of the crowds," Dymally said. "When I said 'aye' the crowd went up in cheers. The upper chambers and the floor were packed. They were filled to capacity."

Now an assembly member from Los Angeles, Dymally recalled the story last spring the day before another critical vote for the gay community, on Assembly Bill 205, which grants same-sex registered domestic partners nearly all the rights and responsibilities of married couples.

In the 29 years since Dymally cast the deciding vote to

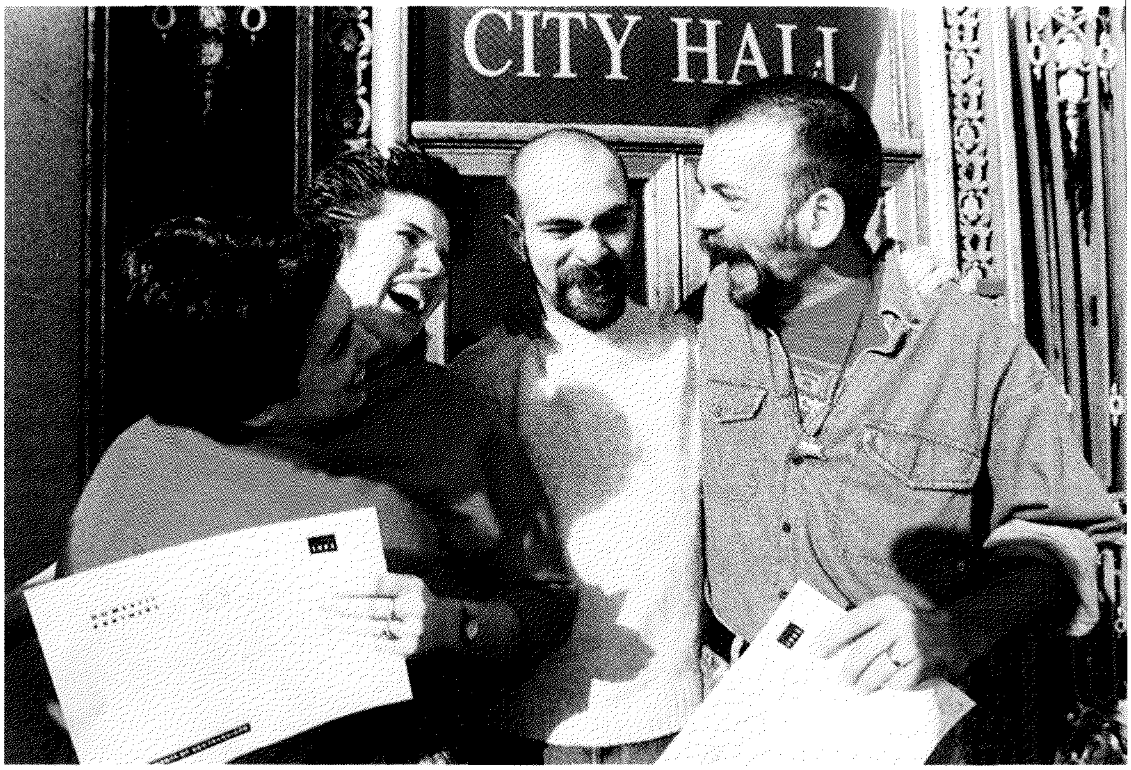
Gray Davis with co-sponsors, Assms. Jackie Goldberg and Mark Leno, at the signing of the Domestic Partners Rights and Responsibilities Act (AB 205), September 19, 2003. Photo: Justin Sullivan, Getty Images.

decriminalize homosexual sex, California's gay community has made a quantum leap. After ousting the government from their bedrooms, gay leaders have worked with increasing success to get homosexuals the full rights of other citizens.

Nationally, gays are making dramatic legal and cultural progress. Sitcoms and even reality shows now feature gay characters, while a landmark Massachusetts high court decision has ruled that same-sex couples can't be excluded from marriage. At the same time, President Bush and national Republicans are fighting back by considering a constitutional amendment that will prevent same-sex marriages.

California is in the forefront of the latest debate, standing as a national leader in expanding rights for gays and same-sex couples.

Since the 1975 vote decriminalizing gay sex, numerous California gay leaders have transformed themselves from activists seeking change from the outside to insiders who occupy offices in the corridors of power.



The first gay and lesbian couples to apply for domestic partnership certificates in San Francisco celebrate outside of City Hall, February 14, 1991. From left to right are Martha Cody, Susan Berry, Christopher Minor and Richard Mulholland. Photo: Blake Sell, Reuters.

California has the first official gay caucus of legislators in the nation, including four Assembly members and one state senator.

Even in California, though, the issue of gay rights remains divisive. Three years ago, opponents of the idea successfully passed Proposition 22 with 61 percent of the vote, which was aimed at preventing gay marriages by stating marriage is only between a man and a woman.

The opponents of the measure say that gay rights advocates in the Legislature have become so unrestrained that they have overreached. Eventually, they believe these new laws will spark a backlash.

"People weren't paying attention to legislation over the past few years," said state Senator Pete Knight (R-Palmdale), one of the backers of Proposition 22. "These bills haven't affected people yet. Eventually, people will begin to understand the damage they can do. They'll wake up and want a change."

California doesn't have the most extensive civil rights for gays and lesbians in the nation, but it ranks near the top. Massachusetts' high court said in November that discriminating against same-sex couples who want a marriage license is unconstitutional, opening the door for a same-sex couple to be treated entirely the same under state law.

Vermont's high court reached a similar decision. In response, the Legislature and then Governor Howard Dean, now a Democratic candidate for president, decided to create a separate category for same-sex couples called civil unions, which confers fewer rights than full marriage. Hawaii and California established a third category, domestic partnerships, that allows same-sex couples some rights and benefits.

But California is unlike those states because its Legislature acted independently to expand gay rights without pressure from court decisions. When it comes to legislative action, California is the leader, according to some activists.

"In the last four years California has made tremendous strides in protecting its LGBT [lesbian, gay, bisexual, transgender] citizens," said Geoffrey Kors, executive director of Equality California, a gay rights organization. "California did it on its own."

In his first year in office, former Governor Gray Davis signed legislation banning discrimination against gays in schools, establishing a domestic partners registry for same-sex couples and allowing state unions to bargain for health benefits for same-sex partners.

In 2001, Davis signed legislation adding 12 new rights for domestic partners, including the right to sue for wrongful death, make medical decisions for a partner and administer a partner's estate.

This year, Davis signed AB 205, which vastly expands the rights and responsibilities of domestic partners, treating them nearly the same as married couples in critical areas of state law, including child custody, child and spousal support and property acquisition.

Under the law, which doesn't take effect until 2005, partners won't have to testify in court against each other, but they will have an obligation to pay each other's debt. They also must list the income of their partner when applying for need-based benefits.

Further, partnerships that last longer than five years or include children have to be dissolved in court, using the same divorce laws that apply to married couples. Davis also signed legislation banning discrimination against those who dress or act in a manner more like members of the opposite gender. Finally, he signed a bill requiring businesses that contract with the state to treat domestic partners the same as spouses when it comes to benefits.

Business leaders were largely silent on AB 205, the domestic partners law, but they opposed the other two bills, saying they could add to the cost of doing business in California.

But the gay caucus overcame their opposition, enacting virtually its entire agenda. "It was a very successful year," said Assemblywoman Christine Kehoe (D-San Diego), who headed the gay and lesbian caucus last year. "We dealt with some important civil rights issues."

During his five years in office, Davis, whose views often remained a mystery to liberal party activists, was clear in his commitment to gay rights. "He signed more bills on this issue than any governor in the country," said Kors.

In an interview, Davis said he first learned about discrimination against gays from Sheldon Andelson, the first openly gay regent at the University of California. In the late 1970s and early 1980s, Andelson, now deceased, explained to Davis how society ostracized gays and made it difficult for them to obtain jobs and housing.

Gray Davis and his wife, Sharon Davis, were married at Andelson's home in 1983. "It helped shape my attitudes well before elected office," he said. "I've always believed that society should fight discrimination and stand up for everyone's rights."

Besides signing bills tightening anti-discrimination laws against gays, Davis appointed many gays and lesbians to high office, including nine openly gay judges. Two of his most effective and trusted aides were openly gay, Susan Kennedy and Daniel Zingale.

Gay activists, in turn, have returned Davis' loyalty. Last September, during the height of the recall campaign, when prospects for Davis' survival seemed dim, the Democrat attracted a boisterous crowd of 300 at a San Francisco gay community center where he signed AB 205.

The crowd, which was peppered with a few colorfully dressed transvestites, clapped, chanted and cheered for Davis, a politician who doesn't normally evoke such a passionate response.

"Governor, get used to it. This is a love fest and it's not going to stop," said Assemblyman Mark Leno (D-San Francisco), an openly gay legislator. Party loyalty is one of the key reasons for gays' success in California. Despite the recent election of Republican Governor Arnold Schwarzenegger, California has gradually become a more solidly Democratic state.

Next to African-Americans, gay voters are the most loyal Democrats, according to a variety of exit polls. Further, gays make up 10 percent of the vote in a Democratic primary in California and nationwide, said Kors.

Nationally, all the major candidates for the Democratic Party's presidential nomination favor some form of domestic partnership for same-sex couples, although none of the major candidates has endorsed gay marriage. Gay and lesbian activists have also become regular and generous donors as well as organizing a wide variety of political and lobbying groups.

"I've always believed that society should fight discrimination and stand up for everyone's rights."
— Former Governor Gray Davis

Even their opponents admire their discipline. "They have a dedicated agenda. They have an objective. They organize in that direction. Nobody is opposing it" effectively, said Knight. Some opponents, like Knight, oppose all gay rights bills; others, like the Catholic Conference, have a more nuanced position. The leading Catholic lobbying organization was neutral on earlier bills granting limited rights to domestic partners out of "compassion for certain needs of individuals in long term relationships."

But the Catholic Conference tried to stop the broad domestic partners law this year, arguing that it offered same-sex couples a battery of rights that it viewed as too close to marriage. "In effect, this subtly changes the definition of marriage," the Catholic Conference wrote in an opposition letter.

California, of course, has long attracted those with differing lifestyles. San Francisco turned into a mecca for gays in the 1960s and 1970s, electing the late Harvey Milk as the first openly gay public official in California.

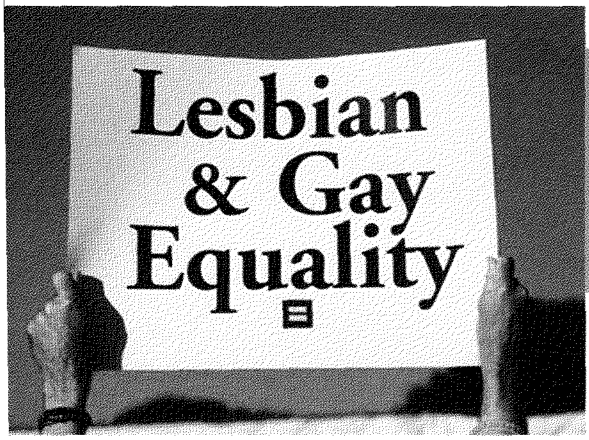
The AIDS crisis spurred a new wave of activism. The government's slow reaction to a disease that killed young gay men starting in the early 1980s forced gays and lesbians to get involved in politics.

Kehoe remembers attending fund raisers in San Diego bars to help cover expenses of those afflicted with the deadly disease. "We quickly became more sophisticated because it was a matter of survival," she said. "Young men were literally dying on the couch, so it was very personal."

Gay activists learned how to access governmental assistance and got more involved in local and partisan politics. "It raised people's consciousness about the importance of having our own people in office," Kehoe said.

But it hasn't been easy. Assemblyman John Laird (D-Santa Cruz), an openly gay member of the Legislature who has held various elected offices, believes that gay elected officials have to meet higher standards. "I've always felt I had to be significantly better than other politicians to get elected," he said.

State Senator Sheila Kuehl (D-Santa Monica), the first



"What if three people come in and want to get married? How are you going to refuse them?" — State Senator Pete Knight

openly gay state legislator to be elected in California, has established herself as one of the more popular and effective legislators at the Capitol. The former actress, who played Zelda Gilroy on the 1960s television series, "The Many Loves of Dobie Gillis," came to the Legislature after establishing herself as an expert on domestic violence and child custody laws.

In the 2002 elections, she led a group of Democrats who backed liberal candidates in Democratic legislative primaries. The group succeeded in electing more liberal legislators, including the first openly gay male lawmakers, Leno and Laird. Now, Kuehl, who authored a variety of gay rights bills, is a contender to replace Senate President pro Tempore John Burton, who will be termed out of office this year.

"Sheila Kuehl opened doors. She's a role model for us," said Eric Astacaan, an activist who now works for the Legislature's gay caucus.

Art Croney, a lobbyist for the Committee on Moral Concerns, which opposes gay rights bills, said he believes gays have succeeded in part because they have improved their public image.

During the 1980's, he said, young, rowdy men dressed in flamboyant clothes used to descend on the Capitol each year to try to help pass a gay rights bill. Their appearance contributed to the view that gays were on the margins of society and didn't have to be taken seriously. Now gays are often represented by men and women in business suits, who could just as easily be at home in a corporate boardroom as a gay rights rally.

Astacaan said that the new civil rights laws have brought more homosexuals, including more typical citizens, out into the open. "We've always been around. We were not open about being gay and lesbian because you could lose your job, lose your promotion or get killed," he said.

The increasing success of gay rights is also a reflection of greater public support. In 1977, the non-partisan Field Poll reported that only 28 percent of voters favored same-sex marriage. In 2003, that number had climbed to 42 percent.

The 2003 poll also reported widespread support for domestic partnership laws, including 61 percent who support allowing committed same-sex couples to receive benefits from each other, such as pension, health and dental coverage, family leave and death benefits.

Still, Knight, whose son is gay, believes the Legislature is far more tolerant of same-sex couples than the public. "It's not in the best interests of the state to change the definition of marriage. What if three people come in and want to get married? How are you going to refuse them?" he said.

Knight said he has dropped his plans temporarily to try to collect enough signatures to put AB 205 before voters in a referendum. But he believes his court challenge will knock out the new law on the grounds that it violates Proposition 22 by changing the definition of marriage.

During the recall campaign, Schwarzenegger said he supports gay rights and domestic partners, but he opposes the comprehensive domestic partners law signed by Davis because it is too close to marriage. On a plane ride early last month, however, Schwarzenegger told Kehoe he wouldn't support overturning Assembly Bill 205. She's not sure how he'll view other issues. "My hope is that he'll be as open-minded as he says he is," she said.

Although the departure of Davis probably means the golden era for gay rights is over, Dymally and others say that the movement will remain a lasting force in California politics.

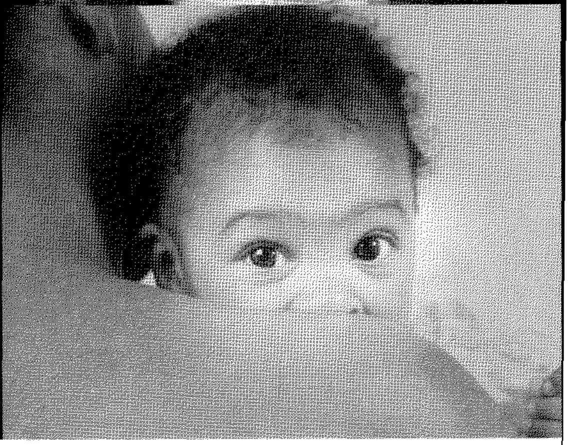
Most legislators, even conservatives, oppose discrimination against gays, even if they don't want to extend new rights to homosexuals. Further, conservative opponents rarely, if ever, demean gays in floor speeches, legislators say. "There's no ranting or raving by conservatives on gay rights anymore," Dymally said.

Dymally believes that even if Kuehl doesn't win the Senate's top job, eventually a gay legislator will become the Assembly speaker or Senate leader. The current gay and lesbian legislators are "very respectable and they're very able," he said.

Dymally calls gay rights laws such as AB 205 "inconceivable" back in 1975. "It was like an unborn baby," he said. "We didn't think that this was even possible."

More than 25 years after the passage of the first historic gay rights bill, the political climate has changed greatly. Last year, Dymally, the man who cast the deciding vote to decriminalize gay sex, a legislator who can lay claim to playing a pivotal role in gay rights history, could not even win the endorsement of a leading gay rights group. The Stonewall Democratic Club of Hollywood believed that his opponent was more supportive of gay interests.

Bill Ainsworth is a Sacramento-based reporter for the San Diego Union-Tribune. *Send comments to* **comments@californiajournal.com**



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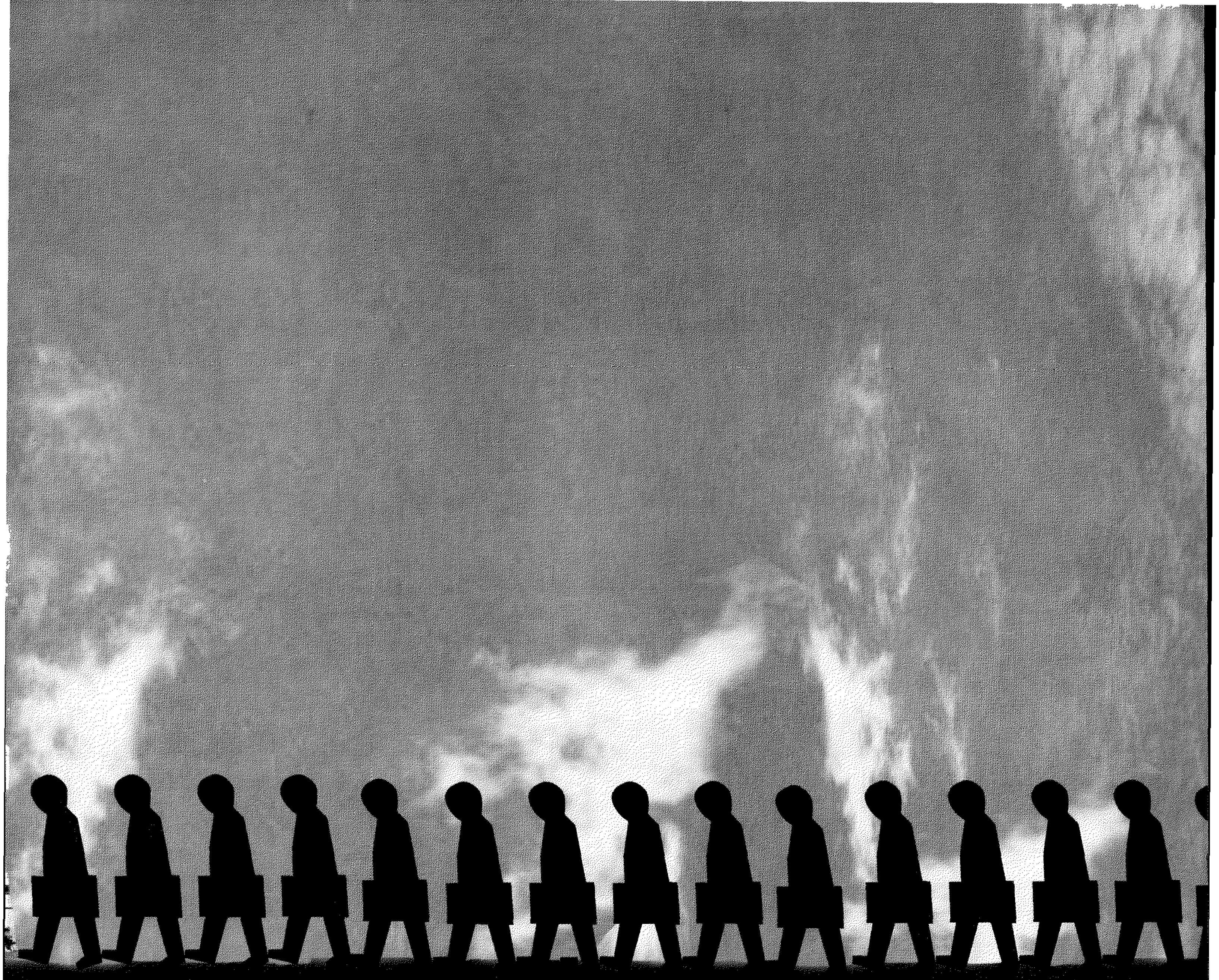
BUDGET $ 2004

The big bond

Governor Schwarzenegger and the Legislature agreed to put a $15 billion bond on the March ballot to help close the state's massive budget deficit. But critics, including the state treasurer, warn that this new bond — coupled with a $12.7 billion education bond on the same ballot — push California over the edge when it comes to its overall debt.

By Shane Peterson

CALIFORNIA REPUBLIC



Finally, after weeks of dead ends, verbal fistfights and political strafing tours by Governor Arnold Schwarzenegger, he and the Democrat-controlled Legislature agreed in mid December to place a $15 billion bond proposal (Proposition 57) on the March 2004 ballot. The approval came during one of three special legislative sessions called by Schwarzenegger only moments after he took office on November 17th.

Unlike most state bond issues, however, this one does not create assets, such as schools, highways or aqueducts. This little creature is meant to pay off debt and help close a mammoth gap between what the state earns and what it spends — the budget deficit. It does not represent found money, and the proceeds will offset debt already accumulated by the state — not finance new programs.

> **"We've tended to avoid using bonds for the operations of the government because of the debt clause that's in the [California] constitution."**
>
> **— Fred Silva, PPIC advisor**

The bond replaces a similar measure approved by the Legislature earlier this year and signed into law by then-Governor Gray Davis. That bond was subject to a court challenge, however, because voters had no say in authorizing it — a legal cloud that does not apply to the new bond, which requires voter approval.

Like any new bond, Proposition 57 will add to the state's overall debt burden, a fact which concerned the state's fiscal steward — state Treasurer Phil Angelides, a Democrat who is considered a leading candidate for governor in 2006. In a report to the governor and legislative leaders in November 2003, Angelides warned that bonds predicated on closing a budget gap rather than buying assets are ill-conceived, pass the burden for current spending onto future generations and raise the overall debt burden "beyond what is fiscally prudent." As Angelides and others point out, the concept of using bonds to pay for ongoing state operations is akin to taking out a second home mortgage to pay monthly living expenses.

The state has borrowed in the past to pay for ongoing operations, but only on a short-term basis.

"We've tended to avoid using bonds for the operations of the government because of the debt clause that's in the [California] constitution," said Fred Silva, a former legislative consultant who is a senior adviser with the Public Policy Institute of California. "The debt clause was put in the constitution in 1849, our first constitution, and the objective was to avoid borrowing money to support ongoing services. Since the mid 1930s, the courts have allowed the state to use borrowing to cover short-term deficits."

Those deficits occur because the state doesn't have a balanced budget requirement in its constitution, Silva said, and the only way to finance a deficit is to borrow money. Such bonds usually have a short shelf life of one or two years.

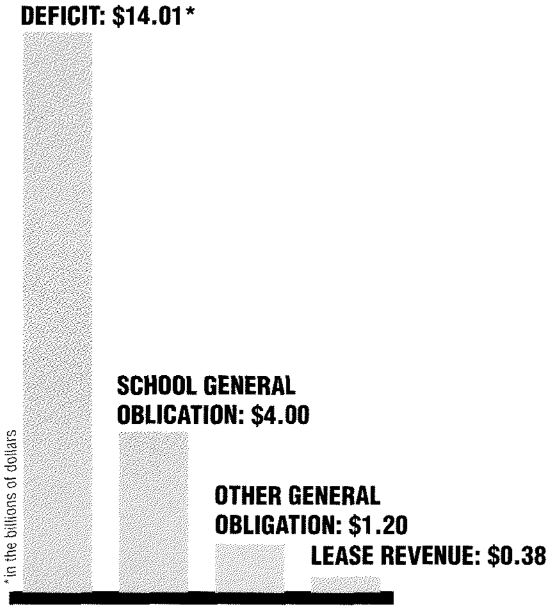
California is one of a select group of states that use deficit borrowing this way, said Arturo Perez, program principal of the National Conference of State Legislatures' Fiscal Affairs Program."The practice is generally prohibited by most states," Perez said. "Only a handful of states, including Connecticut and Massachusetts, are able to issue short term debt for operating deficits."

The March bond, however, is for a longer term — as much as nine years. What exactly does that mean for the average voter? And how should voters evaluate this bond in the context of overall state debt?

Credit rating

A bond is, in effect, a loan, and the state, like an individual, has a credit rating based on how likely the borrower will be to repay, or not repay, that loan. Currently, lenders think the Golden State is a lousy risk. The Wall Street firms that rate bonds — Moody's,

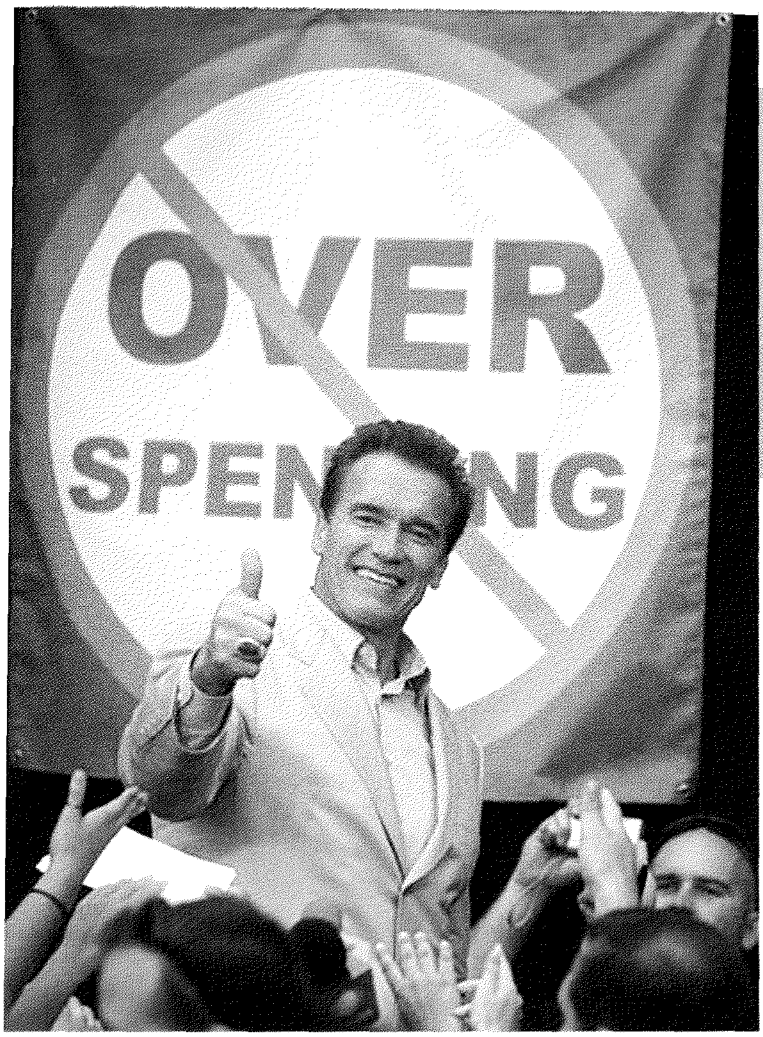
Planned bond issuance fiscal year 2003-04 state budget



* in the billions of dollars

State of California 2003-04 General Fund Budget Package

	Amounts ($millions)	% of budget gap solutions	% of total spending
BUDGET GAP/TOTAL SPENDING	n.a.	$39,415	$71,100
Internal borrowing	$445	1.13%	0.63%
Fund shifts	$2,155	5.47%	3.03%
TOTAL INTERNAL BORROWING & FUND SHIFTS	$2,600	6.60%	3.66%
Tobacco Securization Bonds	$2,000	5.07%	2.81%
Pension Obligation Bonds	$1,900	4.82%	2.67%
Fiscal Recovery bonds	$10,700	27.15%	15.05%
TOTAL EXTERNAL BORROWING	$14,600	37.04%	20.53%
TOTAL - ALL BORROWING & FUND SHIFTS	**$17,200**	**43.64%**	**24.19%**



Arnold Schwarzenegger in San Diego to promote his California Recovery Plan, 12/2/03. Photo: Lenny Ignelzi, AP.

Standard & Poor's and Fitch — put California at the bottom of the pile, with the lowest rating of any state.

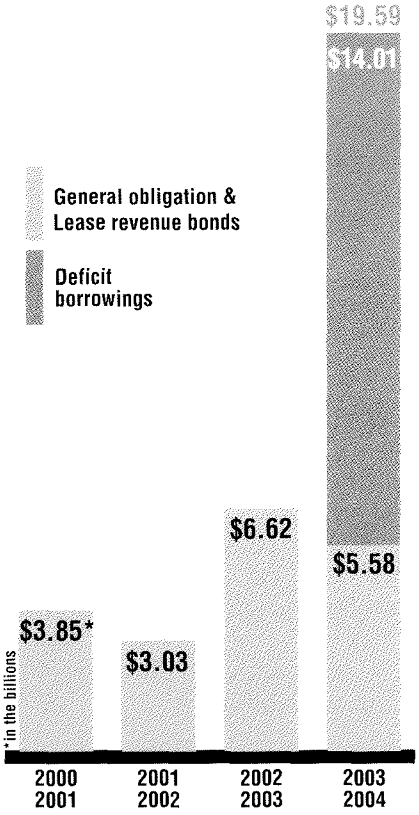
According to the state treasurer's office, which monitors bond ratings, the state's stature as a lending risk has deteriorated substantially since September 2000. Standard & Poor's ratings, for instance, have steadily eroded from a high-water mark of AA (September 2000) to A+ (April 2001) to A (December 2002) to BBB (August 2003). According to some analysts, the AA rating was the state's highest in a decade, while the plunge to BBB puts California borrowing only one step above junk-bond status. The highest available rank is AAA.

"The state's ratings can be restored only if there is real progress toward structural balance," the treasurer's office reported in its November report on debt affordability.

That low credit rating means the state pays higher interest rates when it sells its bonds, and that raises the overall cost to borrow money.

The overall cost also depends on the term of the bond. The longer the term, the less the state pays out annually in interest but the greater the overall cost. For instance, a 30-year, $15 billion bond brings with it $1.17 billion in annual debt service, or interest on the bond. With interest added in, the overall cost of the $15 billion bond is $34.98 billion (principal plus 30 years worth of interest). A shorter term, say 15 years, has a higher an-

State of California recent & projected bond issuance levels



Source: CA Treasurer's office

Debt ratios of 10 most populous states

STATE	Debt to personal income	debt per capita
Texas	0.9%	$246
Michigan	1.8	$542
Pennsylvania	2.2	$693
CALIFORNIA	2.5	$812
Ohio	2.6	$750
Georgia	2.8	$802
Illinois	3.1	$1,040
Florida	3.3	$985
New Jersey	5.5	$2,110
New York	5.8	$2,095
MOODY'S MEDIAN FOR ALL STATES	**2.2**	**$606**
MEDIAN FOR THE 10 MOST POPULOUS STATES	**2.7**	**$890**

Don't Mortgage
Our Children's Future

State Treasurer Phil Angelides on a statewide drive opposing Governor Schwarzenegger's $15 billion bond proposal, 12/4/03. With him left to right: Kris Kohler, UCSD student representative; Juanita Salas, Associated Students of UCSD; Margaret Jakobson, Protection and Advocacy, Inc.; and Louis Frick, The Access Center of San Diego. Photo: Courtesy of the Tresurer's office.

nual debt service ($1.55 billion annually), but a lower overall cost ($23.3 billion). Broken down into cost-per-household, the 30-year bond costs every California household $3,042 over the life of the bond. The 15-year bond costs $2,017 per household.

If a bond has no dedicated revenue stream — a source of money to pay off the principal and interest — then it must be repaid out of the state's general fund. And that takes money away from other programs that also depend on the general fund, such as education, health and public safety.

"These borrowings come with a real cost," Angelides told legislators in November. "They're not magic money. They do need to be paid. What they mean is future carve-outs from budgets that will diminish fund availability from programs and/or ultimately lead to tax increases down the line of a greater magnitude should people want to restore, or keep, program levels."

He also warned that issuing bonds to cover deficits could potentially hurt the state's chances of finding buyers for bonds that finance capital projects, such as building schools or other infrastructure projects, because capital markets don't have an unlimited capacity to buy bonds sold by the state.

"The most we've ever sold in general obligation bond debt in this state in one year is $6.6 billion, and that was last year," he said. "...You have to keep in mind that the primary borrowers for our debt are the people that get both the federal and state tax exemption. So this is not a limitless international market."

The bond proposal that finally passed has a dedicated revenue stream, however — a quarter cent from the sales tax — so won't impact the general fund. In addition, the bond term has been reduced to an estimated nine years, with a total cost of $19 billion in principal and interest.

The deficit-reduction bond isn't the only borrowing plan before voters in March, however. A $12.3 billion education bond is also slated for the primary election ballot, and the education community worries that voters may balk at more than $27 billion in combined debt represented by the two measures. There was some talk about moving the education bond to the November ballot, but lawmakers and the governor ultimately let it ride in March.

The total bill

Total state debt is substantial. According to Angelides' report, California's debt-service requirement as of July 1, 2003, was $47.4 billion

> **"The state's ratings can be restored only if there is real progress toward structural balance."**
> **— California treasurer's office**

over the next 30 years. Nearly $20 billion of that amount ($19.8 billion) represents interest, with $27.6 billion representing principal. The state also had another $23.5 billion worth of bonds that had been authorized but not yet issued, or sold.

The report notes that California's debt per capita ($812) is 33 percent higher than the media level for all 50 states ($606), but below the median level for the 10 most populous states ($890). It is three times higher than Texas ($246), but 2.5 times lower than New York ($2,095).

But the new bond — plus the education bond — alarmed Angelides enough that he issued a stern warning about the level of debt being accumulated by the state. His warning, issued in November, involved a proposed $11 billion "fiscal recovery bond," not the $15 billion measure that ultimately passed in December.

"When the proposed ... [Fiscal Recovery Bond] is considered as part of the state's total bonded indebtedness," Angelides wrote to the governor and legislators in November 2003, "the resulting ... annual debt service would increase the state's overall ratio of debt service to general fund revenues by over 2.9 percent, from its current moderate level of approximately 3.6 percent ... to nearly 6.5 percent..."

That level, he warned, is "well beyond the 6.0 percent that is widely considered within the bounds of fiscal prudence."

The administration, however, has dismissed Angelides' warnings, saying that lawmakers and other officials from the treasurer's own party agreed with the governor. Democratic State Controller Steve Westly, for instance, called the $15 billion bond "a reasonable approach." Administration officials, including Schwarzenegger himself, have insisted that the state is such terrible financial shape that only borrowing will allow it to move past the current crisis.

Ultimately, voters will decide whether the state is too far in debt, or whether the bonds included in Proposition 57 are a worthy use of what is left of the state's borrowing power. Ironically, they also will decide whether the same kind of bond can be used in the future. A second measure passed in December alongside the bond and signed by Schwarzenegger is a proposed constitutional amendment that, among other provisions, bans the future use of bonds to pay for ongoing operations (Proposition 58).

Shane Peterson is a freelance writer from Sacramento. Send comments to **comments@californiajournal.com**

Higher education dreams denied?
What will happen to the 175,000 students?

This fall, 175,000 students could not enroll in community colleges. A state report found that reduced course sections from budget cuts and fee increases triggered a student exodus of historic proportions.

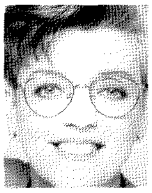
Now, state leaders must make a choice. Will the 175,000 students be denied access to their higher education dream?

Community colleges have been the way California works for families, communities, and the state's economy for nearly 100 years. Let's reopen the doors and allow California's dreams to be realized.

California Community Colleges
Keeping the doors open since 1910.
A message from the Community College League of California.

Fiscal lessons from LA

by Sherry Bebitch Jeffe



Once upon a time, there was a government hemorrhaging red ink. The policymakers in charge turned to a relative newcomer to deal with the budget crisis — the better to deflect the political fallout. But instead, a proposed list of draconian cuts — primarily in social services — sent the government into political turmoil.

No, this not the scenario playing out in Sacramento — at least, not yet. It is what happened in Los Angeles County several years ago. Reviewing the dynamics of that crisis may offer some lessons to Gov. Arnold Schwarzenegger's new budget director, Donna Arduin — a hard-nosed fiscal conservative with years of budget-cutting experience in state government.

Chief among these lessons:

It is one thing to come up with a spending plan; it's quite another to deal with the economic, political and legal realities that stand in the way of implementing that plan.

Lesson? It is difficult, if not impossible, to try to impose drastic cuts.

In 1995, Los Angeles County faced a $1.2 billion budget deficit, which included a $650 million shortfall in funding for health care services. It was nowhere near the potential $14 billion deficit now facing the state, but it was then the largest deficit in L.A. County's history — more than 10% of the county budget. This funding gap had come about over several years, in which county budget writers used one-time accounting gimmicks, borrowing and even mortgaging the Hall of Administration to paper over a structural imbalance. In addition, L.A. County, much like state government today, had to increased social services in a time of diminishing resources and decreasing state and federal assistance.

Observed Supe. Zev Yaroslavsky, "Whether you close this or cut that, there remains a fundamental problem. The county is spending $1 billion more than it's taking in. It cannot continue to do that and remain financially solvent."

Enter Los Angeles County Chief Administrative Officer Sally Reed. At that job for roughly two years, Reed brought with her two decades of experience in Northern California local government, a strong streak of fiscal conservativism and what one reporter described as a "stern, bottom-line management style." From day one, she experienced problems dealing with the powerful, and often contentious, Board of Supervisors — liberal Democrats Yvonne Burke and Gloria Molina, conservative Republicans Mike Antonovich and Deane Dana, and Yaroslavsky, a Democrat moving toward fiscal conservatism.

To balance the budget, Reed proposed cutting 20% of the county's workforce, closing county health clinics and shutting down the Los Angeles County-USC Medical Center, dubbed "the lynch pin of the 911 system." The supervisors and public employees' unions responded angrily.

The politically powerful unions mobilized, putting pressure on Democratic allies in Sacramento and Washington, as well as on the supervisors. The board caved, fully funding services for a few more months. In the end, a federal bailout of the county's health care system mitigated the need to slash jobs and programs. The bailout was negotiated by former Democratic Assm. Burt Margolin, newly appointed county "health czar," with a politically supportive Clinton administration sensitive to the needs and demands of a crucial Democratic bastion.

Lesson? It is difficult, if not impossible, to try to impose drastic cuts. What Reed proposed was a bad fit for L.A. County — and its politics. The fiscal moves that Arduin and her boss are contemplating may stick in the craw of many legislators, voters and powerful interests. It's relatively easy to pick the low-hanging fruit: tame the VLF, repeal the driver's license bill, talk in generalities about a spending cap. It's much tougher to go after specific cuts in areas such as social programs, health care, transportation or higher education.

Remember it is those whose rights are threatened who organize politically. Reed's demands angered the turf-conscious Board of Supervisors and activated union clout in opposition to the cuts.

Despite — or perhaps because of — the governor's strategy of targeting districts of lawmakers who are reluctant to support his priorities, Arduin will likely find current Democratic legislators as turf-conscious and protective of key constituencies' needs as Reed found the supervisors.

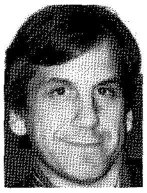
Looking back at the tumultuous L.A. County budget battle, CAO Reed observed, "It's been a bigger challenge than I imagined. The problems here are larger and the ability to move more constrained than I thought."

Donna Arduin, take notes. Take copious notes.

Sherry Bebitch Jeffe is a senior scholar at USC's School of Policy, Planning & Development. Send comments to **comments@californiajournal.com**

Two angry men

by Marc Sandalow



Howard Dean can be a real bastard.

When a woman at a recent town hall meeting questioned his record of providing health care for seniors, he belittled her for parroting information from an opposing campaign. When a man complained that a Dean staffer wouldn't listen to the tale of his wife's precarious assignment in Iraq, Dean accused the man of making up the part about talking to his staff. He bristles at reporters when they ask questions he doesn't like. He has been known to deliver a 30-minute stump speech without cracking a joke, and hardly a smile.

Is sunny California ready to embrace a northeasterner whom even supporters sometimes refer to as "Dr. Angry?"

The answer is yes, if that's what it takes to shake up the political order. California may be the place where "have a nice day" sprouted from a mantra into a way of life, but it is also where angry voters turned out the first sitting U.S. governor in 81 years. It is a place where the economy has yet to show strong signs of recovery, where the size of anti-war protests have rivaled those in Europe, where the conservative values of the Republican Congress in Washington are scorned, and where President Bush has never been as popular as he is in the rest of the country.

Schwarzenegger and Dean have tapped into a simmering frustration at politics as usual.

Anger can work in the Golden State.

"We're mad as hell, and we're not going to take it any more," Gov. Schwarzenegger said as he declared his unlikely, yet triumphant campaign to unseat the governor last summer.

Of course, Dean is no Schwarzenegger. Schwarzenegger is a well-financed, likable, internationally-known movie star who ran against an unpopular career technocrat with the political charm of a fish. Dean is a little-known, fiery doctor, who was governor of a state with a population smaller than San Francisco, who is taking on one of the most popular presidents in recent history.

But there is a common link to their crusades. Each has tapped into a simmering frustration at politics as usual. Each has exploited a growing sense that the government is beholden to special interests, that politicians are not being sincere, and that it is time for the people to stand up to the entrenched power.

"The government today is no longer working for all the people," Dean thunders on the stump, in a line if delivered with the proper Austrian accent, could easily be mistaken for Schwarzenegger.

Pollster Paul Maslin, who has had a first hand look at both campaigns in his capacity as a strategist for both Dean and former Governor Gray Davis, said comparisons between Dean and Schwarzenegger are often overstated. What really pushed Dean to the top was his ability to give a strong voice to Democrats who are angry at Bush. Nonetheless, Maslin acknowledges that a big part of Dean's success is his maverick appeal, or as he calls it "a sense that he is coming from a different place. He is seen as more able to stand up for the people against the special interests."

And that is very much like Schwarzenegger.

"Just as an actor, not viewed as a politician, is given extra credibility as someone who can shake up politics, now it is someone who is a doctor, a governor of a small state, and not connected to Washington D.C.," Maslin said.

Dean is hardly a political neophyte, having served 12 years as governor of Vermont, and preceding Gray Davis as chair of the Democratic Governors' Association in the mid 1990s. Yet he sounds less an insider than his Democratic rivals, who with the exception of Clark and the Rev. Al Sharpton, all hail from the Congress.

"You spend a couple of decades in Washington and pretty soon you sound like mush mouth," said Lofgren, who was the first member of Congress to endorse Dean. "Mush mouth" is not a description that fits Dean, who does not hold back when it comes to criticizing the nation's No. 1 official. On defense: "This president fundamentally doesn't understand what it takes to defend this country." On education: "The sooner we get George Bush ... out of office, the better off schools are going to be." On patriotism: "I'm tired of being pushed around by the right wing of the Republican Party."

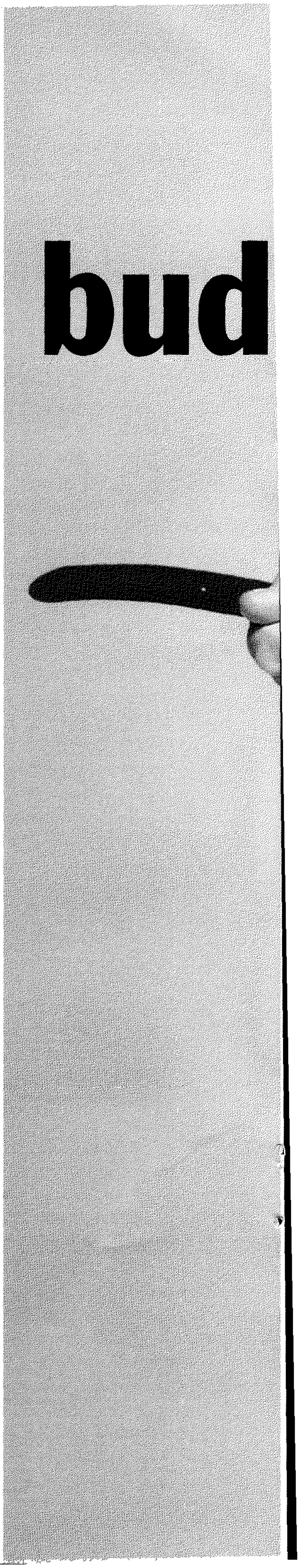
After a particularly bombastic performance at a town hall meeting in New Hampshire, Sheila Murray, a 58-year-old children's librarian, said she had no doubt that she was now a Dean supporter.

"Some people say he's angry," said Sheila Murray, a 58-year-old children's librarian. "Well damn it. So am I."

And so are a lot of Californians.

Contributing editor Marc Sandalow is the San Francisco Chronicle's *Washington Bureau Chief. Send comments to* **comments@californiajournal.com**

A brave new bud



It is hard to overstate the stakes involved in the budget that Governor Arnold Schwarzenegger will present this month. Arguably, it is the reason he was elected — to get the state's fiscal house back in order after years of growing deficits and political stalemates. The latest estimates say that the budget Schwarzengger will propose for the fiscal year that begins July 1, 2004 must resolve a deficit of at least $14 billion. That assumes voters approve his $15 billion bond in March. The new governor's proposals are certain to be controversial. He has insisted that he will not raise taxes and that he will not cut education, which represents more than 40 percent of the state General Fund budget. So there are plenty of special interests and others waiting to see how Schwarzenegger will accomplish the arithmetic. The following articles offer a bit of background on the budget questions involved in some of the state's key funding categories — health care, education and environment.

Education

Governor Arnold Schwarzenegger wasn't even on the job for a month when he learned what Sacramento policymakers and lobbyists have known for years — you can't touch Proposition 98, the constitutional requirement that says almost half the revenue that comes to the Capitol must be spent on education.

Talking over California's rough fiscal predicament with CNN's Judy Woodruff in December, Schwarzenegger said, "We maybe have a suspension or have some relief there so that we can pull out of these next two years and then pay it back, maybe."

While that sounded innocuous enough — after all, the new governor used the word "maybe" twice — the comment rattled through the Capitol hallways and forced Schwarzenegger aides to say that there's been no decision yet on whether Proposition 98 may be suspended.

The hue and cry, however, says a lot about the political climate when it comes to education. It's a third rail in budget talks.

This year the problem will get thornier. Overall state revenues, say analysts, are higher than what the state predicted last June, so Proposition 98 may require Schwarzenegger and lawmakers to come up with almost $1 billion more for education than was expected — which is no easy trick in a tough budget year. Those charged with

get

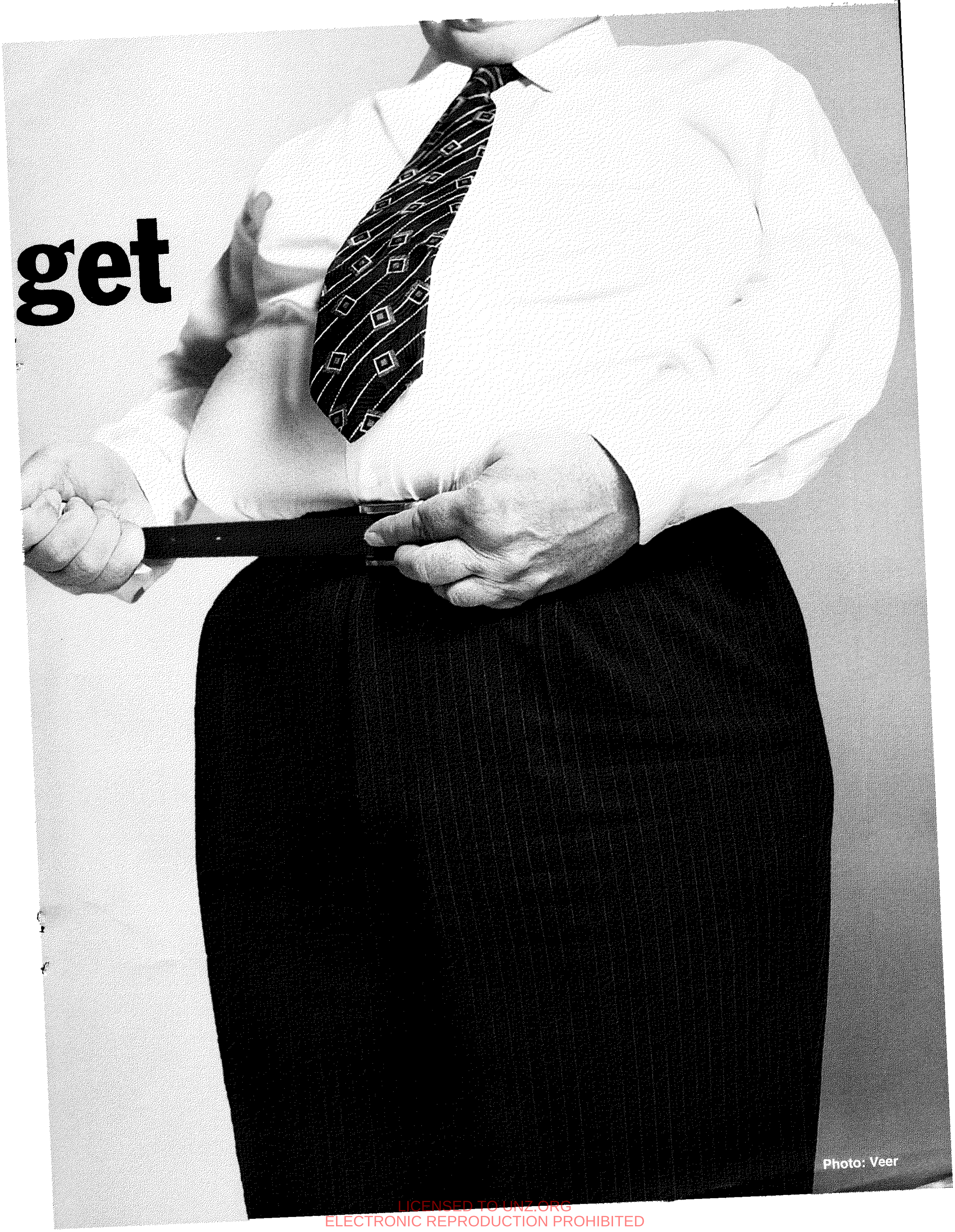


Photo: Veer

finding the money say that there are three choices for how to do this: They could suspend Proposition 98; they could raise taxes; or they could shift an education-related general fund program into the Proposition 98 guarantee. While the first two options would require significant political muscle, the latter may not only alleviate the immediate problem, it would also take some pressure off the portion of the general fund budget that doesn't go to education.

Within the education budget, sources familiar with the governor's plans say that the Schwarzenegger team is expected to focus on giving local school districts more say with how education money is spent. One way to do this would be to eliminate some categorical programs — for which funding is restricted to specific purposes — and use the money to send block grants to locals who may use the money as they see fit. But when former Governor Gray Davis tried the exact same thing last year, the Legislature fought it and the plan failed.

In higher education, Schwarzenegger has already proposed $319 billion in mid-year cuts to the University of California and California State University systems — mostly to outreach programs for low income students. While the Legislature didn't act on the proposals when it was in session in December, the plan clearly signals that the budget for California's colleges is still on the table.

— Jim Evans

Health

As Governor Arnold Schwarzenegger readies his first formal spending proposal, he faces a fraying state health care system, one that is already hobbled by swelling demand and previous years' budget cuts.

Health care is the second largest piece of the state's budget pie and when Schwarzenegger was elected, it was the first among categories he targeted for cuts to help avoid a projected budget deficit. The governor asked a special session of the state Legislature to consider $440 million in immediate cuts to the current-year budget for the Department of Health Services, the state's primary health care agency.

Lawmakers did not act on the governor's proposal in December. But since Schwarzenegger has ruled out tax increases or changes to the state's education funding to help close an estimated $14 billion deficit, analysts and advocates said they expect the governor will include much of his earlier proposal in the 2004-05 fiscal year budget that he will present to the Legislature in January.

"The governor already has launched part of what he intends to do," said Daniel Carson, chief of the health services division of the Legislative Analyst's Office. "The January budget plan, we assume, will reflect the proposals that are already on table . . . but we don't know what the additional measures will be."

The Medi-Cal program, a joint state-federal health insurance program for indigent residents, is already a major budgetary battleground. The program, which covers roughly 6.5 million Californians, would receive a 10 percent rate cut to medical providers, under Schwarzenegger's mid-year cutback plan. The program already took a 5 percent cut to providers in the 2003-04 budget signed by former Governor Gray Davis.

A coalition of providers, led by the California Medical Association, the state's main advocacy organization for physicians, is challenging the 5 percent cut in state court. The coalition has referenced the governor's 10 percent proposal in its court filings, and CMA officials are confident that their lawsuit would apply to Schwarzenegger's plan as well.

Regardless, Medi-Cal is already burdened by spiking program costs and serious access problems. While program costs have risen from roughly $6 billion in 1994-95 to more than $10 billion in the current fiscal year, California's funding of the program remains in the bottom 10 among states nationwide. One result is that many doctors are no longer accepting Medi-Cal patients. A 2002 survey by the non-partisan Medi-Cal Policy Institute found that 56 percent of Medi-Cal beneficiaries reported difficulties in obtaining medical care. A 2003 institute study reported that only 55 percent of doctors in the state's urban areas accepted Medi-Cal patients.

Schwarzenegger also proposed caps on enrollment in Healthy Families, the successful health insurance program for poor families with incomes above Medi-Cal eligibility levels And in December, he reversed an earlier order to suspend the Lanterman Act, which provides services to developmentally disabled residents.

H.D. Palmer, spokesman for the state Department of Finance, said that in addition to program cuts for 2004-05, the administration was considering whether to employ a new law, enacted as part of the 2003-04 budget, which allows the finance department to shift funds among departments to cover mid-year budget shortfalls without the approval of the Legislature.

"The governor has the authority to make expenditure adjustments mid-year, and there will be another opportunity for further reductions in the 04-05 budget," said Palmer. "We are working through several scenarios."

— Steve Robitaille

Environment

Will Californians soon pass through the Golden Arches when they enter their favorite state park after cruising down the Shell "Hydrogen Highway?"

In these days of the incredible shrinking public purse, "public-private partnership" is quick to roll off the tongues in Sacramento when officials talk about how to finance environmental programs.

"There's always a reluctance to go this way and use them for advertising," said Mary Nichols, who served until last November as Secretary of Resources under former Governor Gray Davis. However, Nichols noted that public-private partnerships hold promise, though they alone will not be enough to meet California's resource and environmental needs.

"Taking a serious look at reorganization would be at the top of my list" for addressing the budget crunch in state resources management programs, said Nichols, who also advocates streamlining the state's regulatory process and providing "clear objectives" for resource protection that local governments can follow in land-use management. Lack of clear state guidelines has resulted too often in local land-use decisions that create water, air quality, and open space problems the state later has to clean up at an added cost.

In response, Californians passed some $10 billion worth of resource and water bonds in 2000 and 2002, which will address many of these problems over the next several years and help see the state through the current lean period. However, money is needed to manage new parks and projects, ongoing programs, and new proposals like Governor Arnold Schwarzenegger's highly publicized plan for a "hydrogen highway."

In the pollution control arena, the Legislature provided some new funds during the boom years, which are now shrinking away. For instance, the popular Carl Moyer Program, which funds replacement and retrofits of both publicly- and privately-owned diesel trucks and equipment to reduce emissions, has dwindled from a peak of $50 million in the 2000-01 budget year to just $25 million in the current year. It probably would have been entirely phased out this year, except that Proposition 40 passed in 2002 to provide $50 million for the program for two more years.

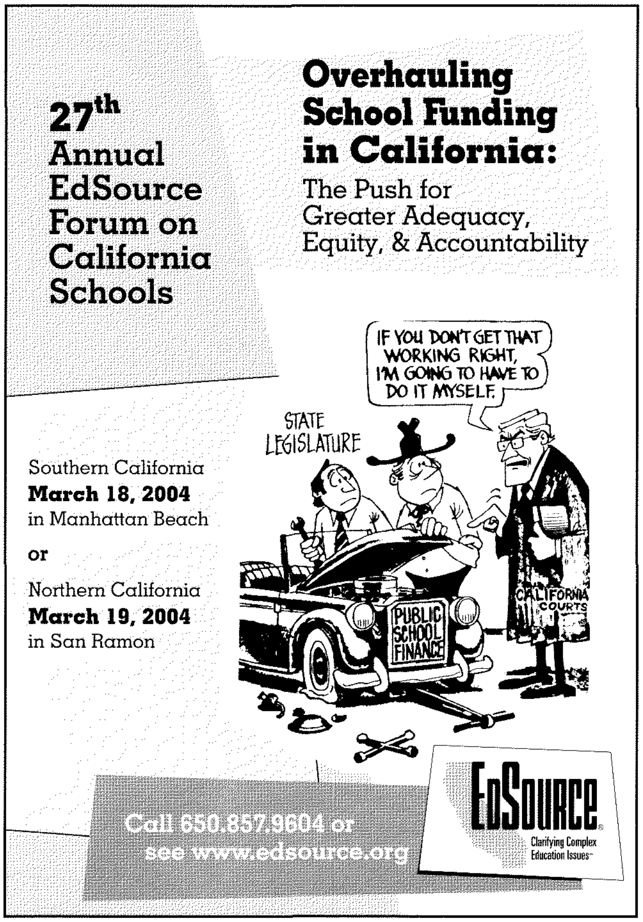
Proponents of developing a hydrogen-fueling infrastructure for cars are still hopeful that a bond initiative measure — AB 740, sponsored by Assembly Member Fran Pavley (D-Agoura Hills) — will pass in the coming year. However, they also believe the project could get started through a public-private partnership, according to Daniel Emmett, who directs the energy independence project for Environment Now in Santa Monica, which was headed by Terry Tamminen before Schwarzenegger appointed him as Secretary of the California Environmental Protection Agency.

Ultimately, however, the state will need to develop new ways of financing programs to protect California lands and waterways, said Nichols, now a member of the California Coastal Commission. The South Coast Air Quality Management District, for instance, hopes to win passage of a bill that would allow it to levy fees on ships and aircraft in the Los Angeles area to fund air pollution control. The legislation failed to pass last year.

Fred Silva, who tracks natural resources programs for the Public Policy Institute of California, said a key concern in any new funding source will be to maintain flexibility so that environmental and natural resources agencies are able to change priorities as needed.

The only good news is that after being cut last year, Cal-EPA and the resources agencies have been spared painful mid-year cuts. However, the bad news is that they can expect to share the pain of cuts again in the 2004-05 budget, according to a state official involved in budget negotiations.

— *William J. Kelly*



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COMMENTARY

The hard-fought compromise in December to put a $15 billion bond and a spending cap proposal on the ballot in March won praise for Governor Arnold Schwarzenegger from several state editorial boards. Reviews were different, however, for his spending cut proposals.

San Diego Union-Tribune

December 13, 2003

[Governor] Schwarzenegger was key to bridging the partisan divide with his willingness to be flexible on the spending cap. When the negotiations hit a snag, Schwarzenegger showed a personal touch that impressed Republicans and Democrats alike.

The new governor's openness stands in marked contrast to Gray Davis, whose aloofness alienated people on both sides of the aisle. During the budget talks, Schwarzenegger got high marks for being a good listener and engaging in some intellectual give-and-take with lawmakers. Assemblyman John Campbell, R-Irvine, summed it up when he said, "You get the distinct feeling that he's telling you what he really thinks and he's not playing" games.

Building on that positive relationship is central to resolving California's chronic fiscal problems.

Los Angeles Times

December 14, 2003

Governing well is tough, gritty work. It requires tedious attention to detail and a measure of trust in the people across the table. It means determination to stick with a job until it's done and willingness to take political risk. Those were all elements of last week's breakthrough agreement between Republican Gov. Arnold Schwarzenegger and majority Democrats in the Legislature. It has been a long time since leaders in Sacramento took the chances that Schwarzenegger and Assembly Speaker Herb Wesson (D-Culver City) did. ...

Wesson, unwilling to accept a fruitless deadlock in the Legislature, kept telling the governor they could find an agreement that would meet his campaign pledges and that lawmakers could live with. Wesson was the Energizer Bunny. Schwarzenegger did something just as rare, negotiating in good faith with the opposition. What they accomplished set a standard for future compromise. Republicans grumbled that they were left out, but once Schwarzenegger approved the deal, they went along. ...

The week's action barely begins to get California out of the fiscal swamp. There's still a potential $10-billion-to-$14-billion hole in next year's budget, which the governor is supposed to assemble by Jan. 10. But last week lays a solid foundation for tougher negotiations to come. At least now we know it can be done.

San Jose Mercury News

December 13, 2003

After second thoughts and much finagling, Gov. Arnold Schwarzenegger and legislators cut a deal. They fixed this year's budget by bonding $15 billion and agreed to a spending limit that will prevent them from trying that again. The compromise, which deserves voters' support in March, was as much a rare triumph of bipartisan collaboration as it was a mandate for fiscal restraint. They'll need all that good will — and more. Now the hard work begins. ... Schwarzenegger promised voters he'd impose discipline, for lack of legislators' self-control. Notwithstanding his conservative critics, he can say he did.

San Francisco Chronicle

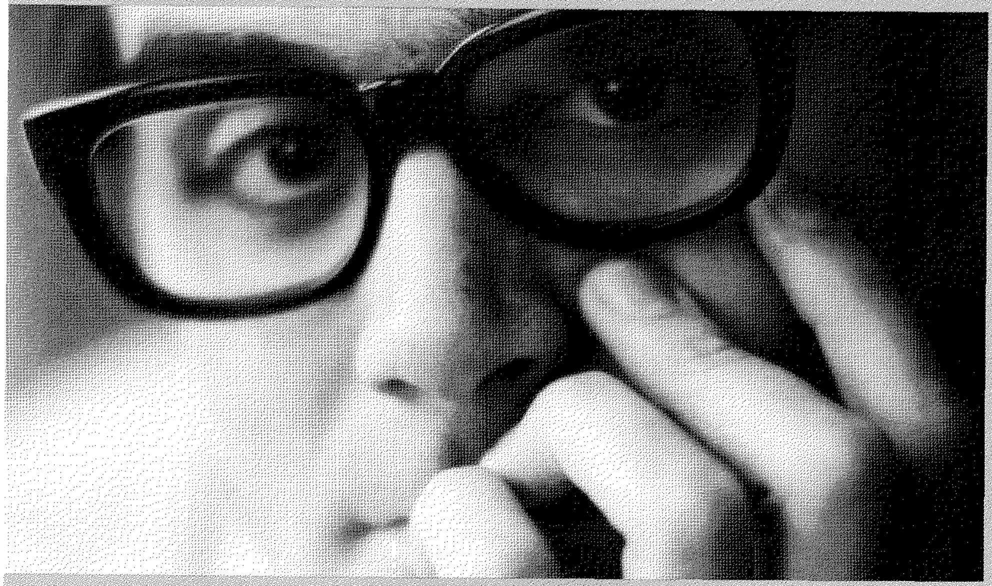
December 16, 2003

Last week, as he stood smiling next to a developmentally disabled toddler at the annual lighting of the official state Christmas tree — dangling ornaments made by people with disabilities — Gov. Arnold Schwarzenegger was forging ahead with a plan to cut services for the disabled.

To the nearly 200 disabled people and their families standing in the cold dark rain, it was a confounding moment. There was Schwarzenegger, admiring the decorations, praising the people who made them and even noting — without mentioning his desire to cut them — the many services available to the child at his flank. ...

Schwarzenegger has boxed himself into a corner by slashing the car tax, ruling out other tax increases and putting a large portion of state spending off-limits to reduction. Surely the state can find more humane and judicious ways to balance its budget than cutting basic services to the disabled.

Dazzle me.



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Arnold Schwarzenegger with Jim Brulte (L) and John Burton (R) after signing the fiscal recovery package that includes a $15 billion bond measure and new spending restrictions. Photo: Steve Yeater, AP, 12/12/03.

Schwarzenegger springs into action

The Arnold Schwarzenegger era officially started shortly after the actor was sworn in as governor in November. Schwarzenegger's first act was to repeal the almost $4 billion vehicle license fee increase. That action — coupled with doubts about whether the roughly $13 billion in deficit bonds the Legislature passed last year would stand up to court challenges — led the new governor to call a special session to deal with an estimated $15 billion mid-year short fall.

First, however, Schwarzenegger took on SB 60, a bill former Gov. Gray Davis signed into law last year that allowed undocumented immigrants to obtain California drivers' licenses. Schwarzenegger campaigned heavily against the new law during the recall election. Amid threats to place a repeal of SB 60 on the March ballot, the Democratic-dominated Legislature acquiesced to the new governor by overturning the legislation. In early December, lawmakers passed the repeal (SB 1 x3) and Schwarzenegger signed it. Even SB 60's original author — Sen. Gil Cedillo — voted to repeal the legislation, but only after Schwarzenegger pledged to work with him on a 2004 compromise plan that would address the new governor's concerns about Cedillo's original legislation.

With the repeal of SB 60 behind him, Schwarzenegger turned his attention to the looming budget crisis.

SENATE
(25 D, 15R)

	SB 1 3 x	AB 9x	ACA 5x		SB 1 3 x	AB 9x	ACA 5x
Aanestad (R)	Y	N	N	Knight (R)	Y	*	Y
Ackerman (R)	Y	Y	Y	Kuehl (D)	Y	Y	Y
Alarcón (D)	*	Y	Y	Machado (D)	Y	Y	Y
Alpert (D)	Y	Y	Y	Margett (R)	*	N	N
Ashburn (R)	Y	N	Y	McClintock (R)	Y	N	N
Battin (R)	Y	N	Y	McPherson (R)	Y	N	Y
Bowen (D)	Y	Y	Y	Morrow (R)	Y	N	N
Brulte (R)	Y	Y	Y	Murray (D)	Y	Y	Y
Burton (D)	Y	Y	Y	Oller (R)	Y	N	Y
Cedillo (D)	Y	Y	Y	Ortiz (D)	*	Y	Y
Chesbro (D)	Y	Y	Y	Perata (D)	Y	Y	Y
Denham (R)	Y	N	Y	Poochigian (R)	Y	N	Y
Ducheny (D)	Y	Y	Y	Romero (D)	*	Y	Y
Dunn (D)	Y	Y	Y	Scott (D)	Y	Y	Y
Escutia (D)	Y	Y	Y	Sher (D)	Y	Y	Y
Figueroa (D)	*	Y	Y	Soto (D)	*	Y	Y
Florez (D)	*	Y	Y	Speier (D)	Y	Y	Y
Hollingsworth (R)	Y	N	Y	Torlakson (D)	Y	Y	Y
Johnson (R)	Y	N	N	Vasconcellos (D)	Y	Y	Y
Karnette (D)	Y	Y	Y	Vincent (D)	Y	Y	Y

VOTER RECORDS

Listed here are the votes of legislators on recent major roll calls through mid-July. Votes selected involve issues of major importance and issues on which there was a major division of opinion, or both.

Y - Yes N - No
*** - Absent or not voting**

A 2/3 vote is required for urgency measures, constitutional amendments, and appropriations.

Assembly: 41 votes required for passage of bills needing a simple majority. (2/3 = 54 votes)

Senate: 21 votes required for passage of bills needing a simple vote majority. (2/3 = 27 votes)

Schwarzenegger's plan was this: Put a brand new $15 billion deficit bond on the March ballot (if voters authorize it, a court can't throw it out) and tie the bond to a constitutional amendment that would cap state spending. While the governor and the Legislature agreed that a bond would be necessary to avert a crisis in June — when the state would run out of money — there were sharp differences over what kind of spending cap would be sent to voters in March. Schwarzenegger's plan took 2004-05 revenue projections (about $75 billion) and used that figure as the baseline that determined future spending (which would adjust annually for population and per capita personal income). The plan also gave the governor broad new powers to increase taxes or cut programs under a fiscal emergency and also established a reserve fund. The Democrats countered with their own plan that mandated that the state couldn't spend more that it takes in and also established a reserve, or rainy-day, fund. A third plan — authored by Assms. Joe Canciamilla and Keith Richman — was also introduced to the special Assembly Budget Committee convened to act on the proposals.

All three plans were eventually rejected at different points in the process, sending Schwarzenegger to his first defeat as governor. But a bipartisan group of lawmakers, led by Richman and Canciamilla, sent a letter to the governor, hoping to restart negotiations on a compromise balanced budget amendment and bond proposal. The letter worked — Democrats and the governor restarted the talks while Republican legislative leaders stood conspicuously on the sidelines. The results of those negotiations — AB 9x and ACA 5x — were introduced a week later and passed by both houses of the Legislature. The measures abandoned Schwarzenegger's original spending cap measure in favor a balanced budget requirement and a lower reserve than the governor had originally planned and no provision that gives the governor broad powers to act on fiscal emergencies. Voters will vote on the bond money and constitutional amendment in March.

ASSEMBLY (48D, 32R)	SB 1 3x	AB 9x	ACA 5x		SB 1 3x	AB 9x	ACA 5x
Aghazarian (R)	Y	Y	Y	Leslie (R)	Y	Y	Y
Bates (R)	Y	N	Y	Levine (D)	Y	Y	Y
Benoit (R)	Y	Y	Y	Lieber (D)	*	Y	Y
Berg (D)	Y	Y	Y	Liu (D)	Y	Y	Y
Bermúdez (D)	Y	Y	Y	Longville (D)	N	Y	Y
Bogh (R)	Y	Y	Y	Lowenthal (D)	Y	Y	Y
Calderon (D)	Y	Y	Y	Maddox (R)	Y	N	Y
Campbell (R)	Y	N	Y	Maldonado (R)	Y	N	Y
Canciamilla (D)	Y	Y	Y	Matthews (D)	Y	Y	Y
Chan (D)	N	*	Y	Maze (R)	Y	N	Y
Chavez (D)	Y	N	Y	McCarthy (R)	Y	Y	Y
Chu (D)	*	Y	Y	Montañez (D)	N	Y	Y
Cogdill (R)	Y	Y	Y	Mountjoy (R)	Y	N	Y
Cohn (D)	Y	Y	Y	Mullin (D)	*	Y	Y
Corbett (D)	Y	Y	Y	Nakanishi (R)	Y	Y	Y
Correa (D)	N	Y	Y	Nakano (D)	Y	Y	Y
Cox (R)	Y	Y	Y	Nation (D)	Y	Y	Y
Daucher (R)	Y	Y	Y	Negrete McLeod (D)	*	Y	Y
Diaz (D)	*	Y	Y	Nuñez (D)	Y	Y	Y
Dutra (D)	Y	Y	Y	Oropeza (D)	Y	Y	Y
Dutton (R)	Y	Y	Y	Pacheco (R)	Y	Y	Y
Dymally (D)	N	Y	Y	Parra (D)	Y	Y	Y
Firebaugh (D)	Y	Y	Y	Pavley (D)	Y	Y	Y
Frommer (D)	Y	N	Y	Plescia (R)	Y	Y	Y
Garcia (R)	Y	N	Y	Reyes (D)	Y	Y	Y
Goldberg (D)	N	Y	Y	Richman (R)	Y	Y	Y
Hancock (D)	N	*	Y	Ridley-Thomas (D)	Y	Y	Y
Harman (R)	Y	Y	Y	Runner (R)	Y	Y	Y
Haynes (R)	Y	N	Y	Salinas (D)	*	Y	Y
Horton, J (D)	Y	Y	Y	Samuelian (R)	Y	Y	Y
Horton, S (R)	Y	Y	Y	Simitian (D)	Y	N	Y
Houston (R)	Y	Y	Y	Spitzer (R)	Y	Y	Y
Jackson (D)	Y	Y	Y	Steinberg (D)	Y	Y	Y
Keene (R)	*	Y	Y	Strickland (R)	Y	N	Y
Kehoe (D)	Y	Y	Y	Vargas (D)	N	Y	Y
Koretz (D)	Y	Y	Y	Wesson (D)	Y	Y	Y
La Suer (R)	Y	Y	Y	Wiggins (D)	Y	Y	Y
Laird (D)	Y	Y	Y	Wolk (D)	Y	Y	Y
LaMalfa (R)	Y	Y	Y	Wyland (R)	Y	N	Y
Leno (D)	Y	Y	Y	Yee (D)	N	Y	Y

SB 1 3x (Oller) Drivers' license repeal: Repeals a law passed last year — SB 60 — that would have allowed undocumented immigrants to obtain drivers licenses. *Approved by the governor.*

AB 9x (Oropeza) Deficit bonds: Submits to the voters a proposal to issue up to $15 billion in bonds to finance the 2004-05 year-end general fund deficit. *Approved by the governor.*

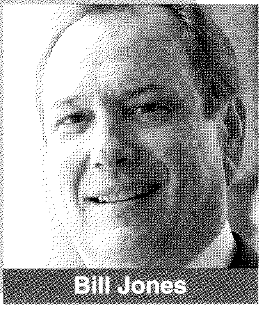
ACA 5x (Oropeza) Spending limit: Submits to the voters a constitutional amendment that would establish a budget reserve fund, mandate a balanced budget and forbids the use of deficit bonds. *Approved by the governor.*

Going for Boxer:

The GOP lines up for the Senate sweepstakes

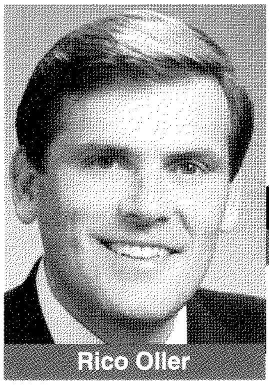
With the retaking of the governor's office complete, California Republicans are now turning their glance toward the U.S. Senate and specifically to their perennial Democratic nemesis, Barbara Boxer. At various times in 2003, rumors had former Gov. Pete Wilson, comedian Dennis Miller, U.S. Rep. David Dreier and others taking on Boxer. Others outwardly explored a run — like U.S. Reps. Doug Ose and George Radanovich — only to balk at the race. Now — with the Republican primary candidates finalized — a clearer picture emerges. Competing to take on Boxer will be former Secy. of State **Bill Jones,** former U.S. Treasurer **Rosario Marin,** former Assm. **Howard Kaloogian** and ex-Los Altos Hills Mayor **Toni Casey.** Thus far in her Senate career, Boxer has proved to be an elusive GOP target. In 1992 and 1998 she disposed of GOP candidates Bruce Hershenson, a talk-show host, and former state treas. Matt Fong, respectively.

Barbara Boxer


Bill Jones

Campaign Watch

The race to succeed retired Republican U.S. Rep. Doug Ose in CD 3 got interesting when Ose's sister, **Mary Ose**, announced she's in the running for the seat. The race was already high-profile with former Attorney General **Dan Lungren** and Sen. **Rico Oller** lined up for the chance to replace Ose. ... Four elected officials have set up campaign committees with the Secy. of State's office to run for treasurer in 2006. They are: Democrat **John Chiang**, who sits on the Bd. of Equalization; Democrat state Sen. **Dean Florez**; Republican Sen. **Ross Johnson**; and Republican Bd. of Equalization member **Claude Parrish**. A fifth candidate, **Jim Costa**, had set up a committee for the office, but when Democratic Congressman Cal Dooley announced his retirement from Congress, Costa set his sights on Washington. The race for Dooley's seat will also include **Lisa Quigley**, Dooley's chief of staff.


Rico Oller

Lobbyists & PR

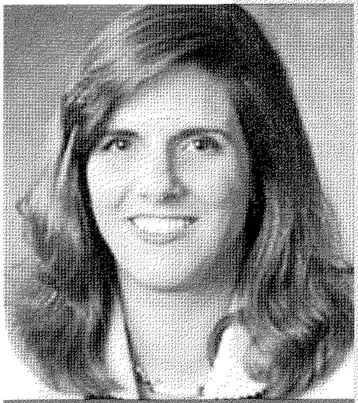
Terri Thomas has started her own firm, Thomas Advocacy. Previously, Thomas lobbied from her post at Neff/Thomas. ... **Debra Brown** recently registered with the state as a lobbyist for the CA School Bds. Assn. ... The CA Manufacturers & Technology Assn. hired **Mike Rogge** as its policy director for environmental quality issues. Rogge most recently worked for the Newark Group, where he assisted the federal government to achieve regulatory compliance in U.S. Dept. of Defense supply depots in Tracy and Stockton. Rogge replaces **Jeff Sickenger**, who went to Kahl/Pownall. ... **Dominick Spatafora**, formerly with CA Psychological Assn., joined the Preventing Tobacco Addiction Foundation as executive director.... **Chris Gallardo**, formerly a consultant for the Assm. Business and Professions Committee, is now legislative director for the California Nations Indian Gaming Assn. ... **Thomas Enslow** has registered as a lobbyist with Adams Broadwell Joseph & Cardozo. ... **Garland Rosauro** has signed up as a lobbyist with the California-Nevada Conference of Operation Engineers. Previously, Rosauro was treasurer of an engineers union in Alameda. **Alecia Sanchez**, formerly legislative aide to Assms. Marco Firebaugh and Virginia Strom-Martin, was named senior policy advocate for Children's' Advocacy Institute and Center for Public Interest Law.

Dan Lundgren

Government

Gov. Arnold Schwarzenegger continued to round out his team in December. The new governor named former Assm. **Fred Aguiar** as

Secy. of the State and Consumer Services Agency. Aguiar currently serves as a supervisor in San Bernardino County. Schwarzenegger also named **Thomas McCaffery** to chief deputy director of Dept. of Health and Human Services. McCaffery was formerly CEO of Alliance of Catholic Healthcare. Schwarzenegger also made **G. Kevin Garruth**, formerly director of General Services for Santa Clara County, his new undersecretary for Youth and Adult Correctional Agency. ... **Denise Davis** is the new deputy communications director for Schwarzenegger. Davis previously handled press for the Pacific Legal Foundation. ... **Byron Tucker**, former deputy press secretary for former Gov. Gray Davis, joined the staff of Insurance Commissioner John Garamendi. ... **Elisabeth Kersten**, director of the Senate Office of Research, announced her retirement. ... **Kevin Terpstra**, former special adviser to former Gov. Davis on information technology, is Lt. Gov. Cruz Bustamante's new communications director. ... **Nora Lynn**, former press secretary for Sen. Dede Alpert, has moved to the Senate Appropriations Committee. Lynn is replaced in Alpert's office by **Chris Shultz**. ... Assm. Rebecca Cohn hired **Richard Woonacott** as her new deputy chief of staff. Before that Woonacott was with the Building Standards Commission. ... **John Corcoran**, a Gov. Davis speechwriter, joined the staff of Bd. of Equalization chair Carole Migden as communications chief. ... Controller Steve Westly has three new additions to his executive team: **Vincent Brown**, formerly deputy executive officer of operation at CalPERS, is his new COO; press secretary **Lisa Casalegno** was named deputy chief of staff; **Steven Fisher**, who was previously with the Dept. of Managed Health Care, is the new director of communications. ... Two Davis staffers have joined the Senate Democratic Caucus: **Russ Lopez**, Davis' senior deputy press secretary and **Ed Emerson**, a Davis advance man.


Kari Dohn

Fred Aguiar

Lobbying:

Remember when ...

It all seems like ancient history now, but it was only a year-and-a-half ago when the Oracle scandal enveloped former Gov. Gray Davis' administration. At issue was a no-bid $95 million state contract given to Oracle to license all state employees to use the company's database software. In the eye of the hurricane was Davis policy director **Kari Dohn**, who testified that she didn't know much about the deal but whose calendar was found to be doctored — someone omitted references to Oracle CEO Larry Ellison, who was a big donor to Davis. Dohn left the Davis administration in May, but recently caught on as a registered lobbyist with Rose & Kindel.

Other

The CA State Assn. of Counties elected Calaveras County Supervisor **Paul Stein** its president for 2004. ... **Tom Doughty**, formerly with the LA dept. of Water and Power, was hired by the CA Independent System Operator as director of client relations. ... Schwarzenegger Finance Director Donna Arduin named a three-member panel to advise on the $15 billion bond Schwarzenegger plans to put on the ballot. They are: **John Bohn**, former Moody's Investors Service CEO; **Robert Denham**, former chairman and CEO of Salomon Inc.; and **Carl Reichardt**, former chairman and CEO of Wells Fargo. ... Schwarzenegger appointed **Anne Sheehan** to the State Personnel Bd. Sheehan is executive director of the California Building Industry Foundation. ... Schwarzenegger also hired **Walter Allen** to be director of the California Youth Authority. Allen has worked for 23 years in the California Dept. of Justice. The position requires Senate confirmation and the statutory compensation is $123,255.

Who's filling what jobs in your office? Drop us a line at **people@statenet.com**

Can Schwarzenegger become

As a candidate, the new governor promised to squeeze more money out of the federal government. But that requires tampering with funding formulas. And *that* requires cooperation from Congress — and from powerful lawmakers from smaller states who might lose money if California grabs a larger share of a finite pot.

By Dana Wilkie

Arnold Schwarzenegger vowed during his campaign for governor that he would charge into Washington as "The Collectinator"—someone who would change California's longstanding reputation as a place that each budget year gets among the lowest returns of any state on its federal tax dollar.

If the new governor wants a sure-fire way to squeeze more money out of the nation's capital, perhaps he should listen to Matt Kane, a federal budget expert who has a standard line for new officeholders on the same crusade:

"Every time there's a congressional election, people ask me how to quickly improve their return on the federal tax dollar," says Kane, a senior policy analyst with the Northeast-Midwest Institute, which works on behalf of the 18 states in those regions. "And I joke that you need to ratchet up your poverty rate, drastically reduce incomes, and recruit old and sick people."

Schwarzenegger must close a $10 billion to $14 billion budget hole when he presents his first state budget on January 10, and he insists he will do so partly by improving that return. But in fact, the Republican movie star-turned-politician may quickly discover that the laws and politics that determine how much money the Golden State gets from Washington are largely beyond his control.

"The expectation that someone, anyone, can come into office and quickly spin things around on federal spending to a state is unlikely," Kane said. "And if the person in question is Governor Schwarzenegger, I would advise that it's going to be tough."

"Tough," of course, is the image the new governor cultivated in his many shoot-'em-up movies, and "tough" is what he vows he'll be to wring more money out of Washington. Schwarzenegger is fond of saying that for every $1 California sends to Washington, it gets back only 77 cents. Put another way, he says, every California man, woman and child pays $1,660 more in federal taxes each year than he or she gets back in federal funds or services.

In fact, the Federal Funds Information for States, a group that tracks federal spending in all 50 states, calculates that California gets an 82-cent return on its

“The Collectinator?”

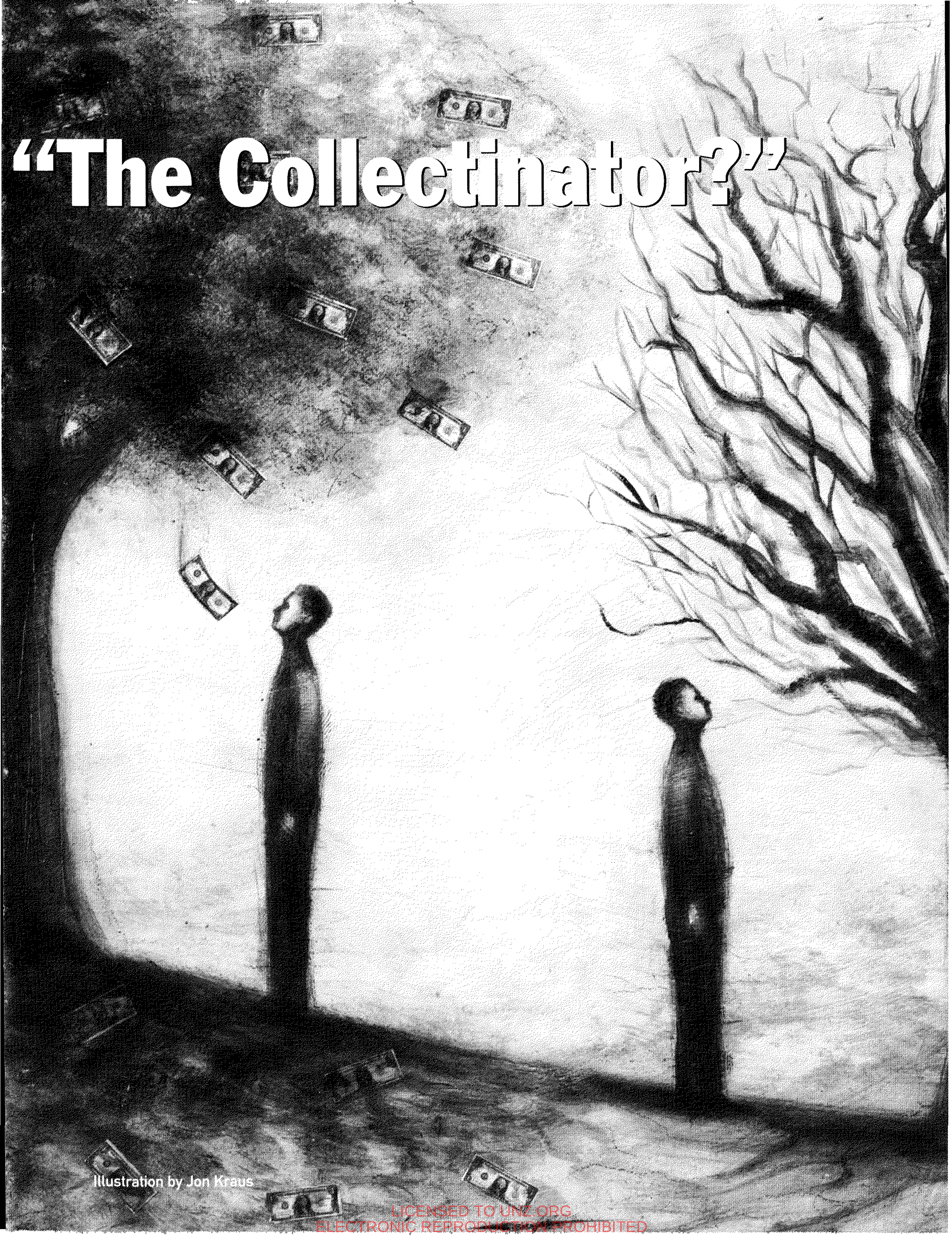


Illustration by Jon Kraus

> **"California is a very important state. And country's economy's going to do well."**

dollar. Relatively speaking, that's still a poor standing: Forty-two other states get a better return on their money, with New Mexico earning as much as $2.08.

Why the shortfall? There are two main reasons:

- Californians tend to earn higher wages and salaries than most others in the country, so they also pay high federal income taxes.
- Californians tend on average to be younger than people in other states, so relatively few of them get Social Security and Medicaid benefits — the federal retirement and health care programs for the elderly and poor.

That might make it seem that there is little California can do about its federal tax-and-spending predicament, short of recruiting more retirees, as Kane jokes, and reducing what Californians earn.

But there is another area that contributes to California's poor return on its federal dollar: the federal grants that go to states for services such as health care, welfare, roads and education. It is among these so-called "formula grants" that Schwarzenegger hopes to make changes. Doled out by 14 federal agencies, the grants accounted for $34 billion — about one-third — of California's budget in fiscal 2001. Although that sounds like a lot of money, in fact California ranks 28 out of 50 states in the amount it gets in these grants, two spots below the national average. The top state is Alaska. The bottom is Nevada.

TOP 10 FEDERAL FORMULA GRANT PROGRAMS

The ten largest federal formula grand programs together account for 75% of federal formula dollars flowing to the states. In fiscal year 2001, the federal government allocated **$214 billion** through these ten programs, with **California receiving $25.7 billion.**

1. Grants to States for Medicaid
2. Highway Planning and Construction
3. Temporary Assistance for Needy Families — Family Assistance Grants
4. Title I Grants to Local Educational Agencies
5. Head Start
6. National School Lunch Program
7. Special Eduction — Grants to States
8. Foster Care — Title IV-E
9. State Children's Health Insurance Program (SCHIP)
10. Special Supplemental Nutrition for Women, Infants and Children (WIC)

Source: California Institute for Federal Policy Research, Public Policy Institute

Each year, Washington calculates California's share of these grants using complicated formulas based on a variety of factors — population, poverty levels, income, unemployment, immigration figures, crime rates and education levels. Every state stands to gain or lose from how these formulas are calculated. And they stand to gain or lose should those formulas change.

"Any proposal to change a [grant] formula brings all hands on deck," said Tim Ransdell, executive director of the California Institute for Federal Policy Research, which is studying how California fares under the grants. "Forty-nine other states are also scraping for increasingly scarce federal cash."

Shortly after he won election to replace recalled Governor Gray Davis, Schwarzenegger came to Washington to meet congressional leaders, and to make his case for more federal funding. He met with all the right people — the men and women who control the federal purse strings by virtue of their posts on key congressional committees — but he was vague when pressed for specifics on how he intends to get more money for his state.

"I came basically to Washington to establish relationships and to make sure that we'll be getting more federal money for California, as I promised in my campaign," Schwarzenegger told reporters. "California is a very important state. And when our economy does well, the rest of the country's economy's going to do well."

The new governor also insists on getting more money from Washington for the cost of jailing illegal immigrants. While this is a different issue from federal grants, it was one of Schwarzenegger's key campaign complaints. For two years running, President Bush tried to do away with federal funding for the State Criminal Alien Assistance Program, known as SCAAP. Both years, the House and Senate managed to send California some money — $300 million for 2004. Once again, the new governor says he will leverage his new "relationships" in Washington to get more money.

California thrives under some grant programs. The state, for instance, gets one-fourth of the money Washington sends states for providing foster care. It also gets one-fourth of the nation's welfare money under grants called when our economy does well, the rest of the

— Governor Arnold Schwarzenegger

Temporary Assistance to Needy Families. And its share of Washington money for roads, bridges, tunnels and mass transit has remained consistent the past decade.

But in other areas, state lawmakers contend, California is shortchanged billions of dollars every year. By far, the bulk of federal formula grants — 66 percent — come from the Department of Health and Human Services, which gave California $22.4 billion in 2001. Much of that was for Medicaid, the health care program for the poor that matches state spending with federal dollars.

In California, where the program is called Medi-Cal, the federal government spent $14.1 billion in 2001, or 10.6 percent of the $133 billion it gave all states that year. That may seem like a large chunk of the Medicaid pie, but California suffers under the program, which uses per-capita income to determine funding on the assumption that states with high incomes will have low poverty. California has high incomes but also high numbers of people in poverty. Several states get more than 70 cents from Washington for every state dollar they put into health care for the poor.

California gets only 50 cents.

"California is simultaneously poor, wealthy, young, urban and immigrant," says a report by Ransdell's institute. "Unfortunately for the state, the largest formula grant program of any kind ... misidentifies the state as not needing assistance when conventional poverty definitions would argue the opposite."

The General Accounting Office, the investigative arm of Congress, concluded this summer that the calculation is inequitable and suggested the program rely strictly on poverty levels to determine how much money states get. California U.S. Senator Dianne Feinstein, a Democrat, plans to introduce such a plan in 2004.

"It is clear that as a result of this funding gap, California — which has 6.5 million people who depend on Medicaid — is short-changed by hundreds of millions of dollars," Feinstein said.

California also gets shortchanged when it comes to grants for educating poor and disadvantaged children. California in 2001 got more than $1 billion in so-called Title I grants — 12.4 percent of the nation's total. But complicated formulas have kept that figure lower than it might have been. As late as 1992, the program was still using old poverty data from the 1980 census, though the number of Californians in poverty had increased considerably in those dozen years. Congress in 1994 required updates of poverty data between each census, but lawmakers from states that would lose funding under that plan – especially in the Northeast and Midwest — blocked the change for several years.

The state also gets a good chunk of money from a federal program to reduce road congestion and air pollution. But it would get more if the "Congestion Mitigation and Air Quality" program — which distributes money based on the number of people living in areas with bad air pollution — didn't require that each state get a set amount, regardless of air quality. Powerful lawmakers from small states wrote the requirement because their regions were losing money as the populations in California and other Western states grew.

Such "small-state" guarantees are required in many grants.

"This happens around census time, when the population shifts," said Jim Seeley, a lobbyist for the city of Los Angeles. Lawmakers from small states "wake up to the fact

PER CAPITAL FEDERAL SPENDING FISCAL YEAR 2002

TOP 10			BOTTOM 10		
RANK	STATE	2002	RANK	STATE	2002
1	Alaska	$11,746	41	Texas	$5,667
2	Virginia	$10,220	42	Oregon	$5,634
3	North Dakota	$10,151	43	Illinois	$5,577
4	New Mexico	$90,422	44	Michigan	$5,563
5	Maryland	$9,076	45	Indiana	$5,553
6	Hawaii	$8,414	46	New Hampshire	$5,441
7	South Dakota	$8,297	47	Minnesota	$5,390
8	Montana	$7,668	48	Utah	$5,311
9	Alabama	$7,643	49	Wisconsin	$5,301
10	Missouri	$7,465	50	Nevada	$4,940
37	CALIFORNIA	$5,878		AVG. UNITED STATES	$6,527

Source: U.S. Census Bureau, May 2003

FEDERAL EXPENDITURES PER DOLLAR OF TAXES FISCAL YEAR 2001

TOP 10			BOTTOM 10		
RANK	STATE	AMOUNT	RANK	STATE	AMOUNT
1	New Mexico	$2.08	40	Washington	$0.84
2	North Dakota	$1.95	42	New York	$0.83
3	Mississippi	$1.78	[illegible]	CALIFORNIA	[illegible]
4	West Virginia	$1.73	43	Colorado	$0.82
5	Montana	$1.67	45	Minnesota	$0.81
6	Alaska	$1.63	46	Illinois	$0.78
7	Hawaii	$1.54	47	Nevada	$0.76
8	Alabama	$1.53	48	New Hampshire	$0.71
9	South Dakota	$1.50	49	Connecticut	$0.67
10	Oklahoma	$1.48	49	New Jersey	$0.67

Source: Tax Foundation, July 2002

"For all his charisma, it's going to be tough for Schwarzenegger to do this lawmaker by lawmaker."
— Lobbyist Greg Campbell

that population changes also change the money a state gets for certain programs, so they put something into [law] that says they continue to get what they got before."

So why can't a state such as California — with 35 million people and a House delegation of 53 — flex its collective muscle and do something about these seeming inequities?

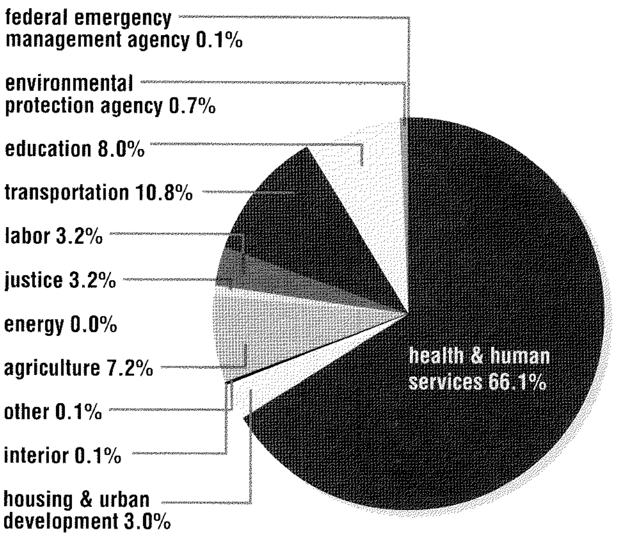
For one thing, states that might lose money because of a formula change — such as those with declining populations — have powerful lawmakers with either the seniority or committee posts to prevent such changes.

For another, the size of California's congressional delegation doesn't matter in a Senate where every state is represented by two lawmakers, no matter its population. In the Senate, California has the same voice as Wyoming, which has fewer than 500,000 residents and one House representative.

"We'll never get back $1 [for every $1 sent to Washington] because of the way Congress and the Senate are structured," Seeley said. "Senators with a lot of seniority in other states and senior members of committees — this all goes into the fabric of figuring out who gets what."

For that reason, a plan to send more homeland security dollars to California probably hasn't a prayer of getting through Congress. The plan by Representative Chris Cox (R-Newport Beach) would base homeland security spending on the terrorist threat faced by each state, and would do away with "small state" guarantees that allow Wyoming to get $35.67 per capita of homeland security money while California gets only $4.85. Cox's position as chair of the Select Homeland Security Committee would otherwise give his plan momentum, were it not for obstacles in the Senate.

COMPONENTS OF FEDERAL FORMULA GRANT EXPENDITURES IN CALIFORNIA (FISCAL YEAR 2002)



Source: California Institute for Federal Policy Research

"By virtue of their mathematical nature, funding formulas can in theory serve as neutral arbiters of who deserves funding and how much," writes Ransdell's institute. "However, formulas are written in a political environment, where drafters must remain mindful of winning sufficient support from committee members, party leadership, and the rank and file of both the House ... and the Senate."

Then there is the White House. President Bush, facing his own $374 billion deficit, is reluctant to give the nation's governors more money when the country is paying for its wars with Afghanistan and Iraq and running up enormous tabs to protect the country from terrorists.

"For all his charisma, it's going to be tough for Schwarzenegger to do this lawmaker by lawmaker," said Greg Campbell, a lobbyist for San Diego. "The president is the only one who's going to be able to make it happen, basically by [pressuring] lawmakers who would lose" money with grant formula changes.

Such are the realities Schwarzenegger faces as he drafts his first budget. His staff, however, declines to talk specifically about where the governor hopes to get extra money from Washington.

"We're not trying to dictate today which areas in which programs we want to address," said Vince Sollitto, one of the governor's deputy press secretaries. "The governor is starting from the beginning. The first thing to do is to build relationships."

Asked whether Democrats believe Schwarzenegger has the nerve to take on Bush to get more federal money, Representative Zoe Lofgren (D-San Jose), chairwoman of the California Democratic congressional delegation, mused that "time will tell" whether the state's new governor has the political will and muscle to win funding changes that she and others in Congress have tried for years.

"He made some promises when he ran for governor," she said. "California voters believed him when he said he would come get [more] money. I hope he'll be successful."

Contributing editor Dana Wilkie is a Washington, D.C., correspondent for Copley News Service. Comments on this article may be sent to **comments@californiajournal.com**.

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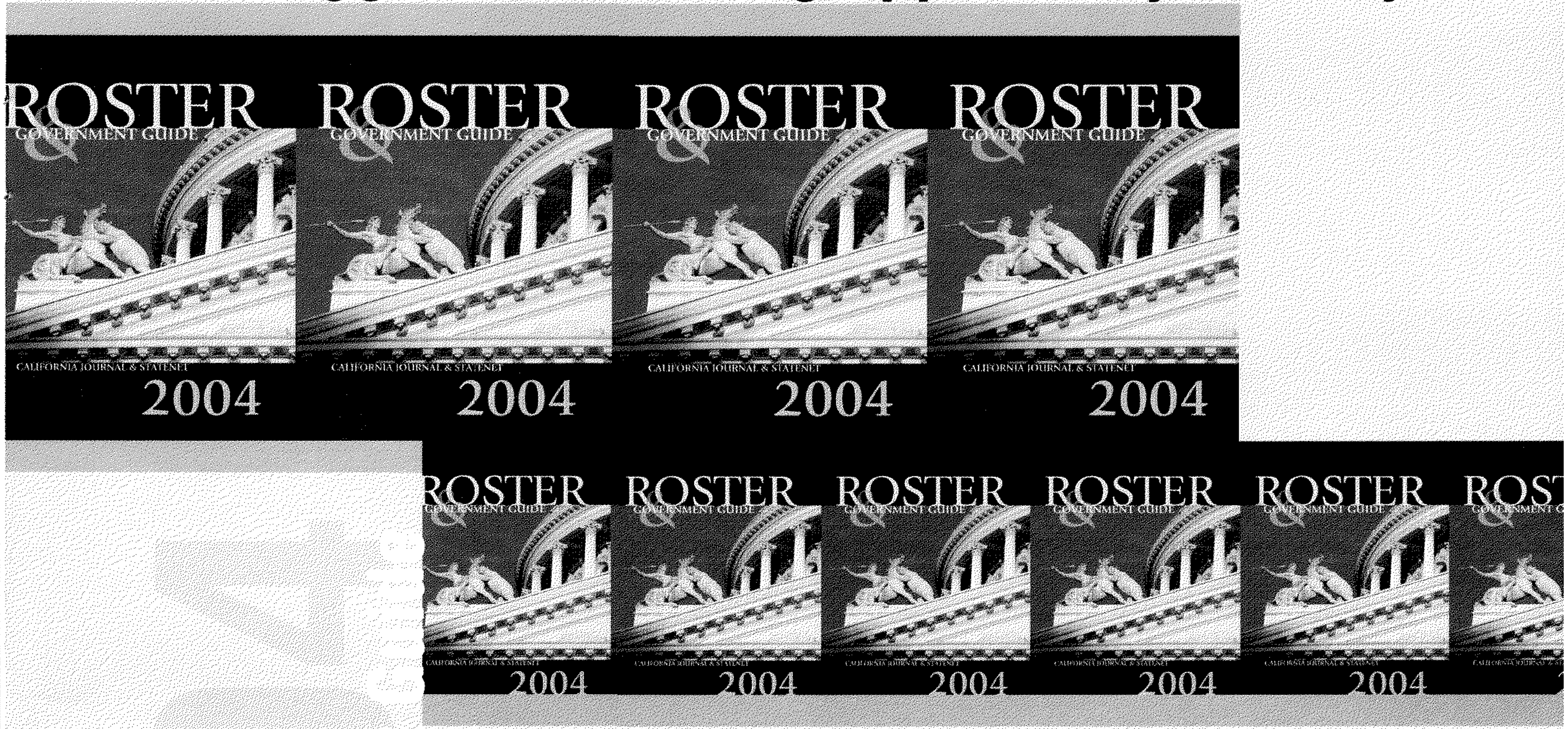

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JOURNAL

A time of transition

January is the start of *California Journal's* 35th year, a notable achievement for a publication entirely devoted to the public and political affairs of a single state.

The magazine has undergone many transitions during those 35 years. The January issue marks another one, for it is the final *Journal* under the guidance of editor David Lesher and managing editor Jim Evans. Both Dave and Jim are leaving our family to take positions with *The Sacramento Bee.*

Although we very much regret their departure, the magazine will continue to provide readers with the in-depth coverage of policy and elections they expect, and we have assembled a veteran team to carry on the *Journal* tradition. I have marked my 21st year with the *Journal* by stepping back into the role of editor, a position previously held from 1995 to 2000. Equally as important, Claudia Buck has returned as managing editor after a two-year absence. Claudia brings many years' experience as a Sacramento journalist, including the *Journal* and *The Bee's* Capitol bureau. We are joined by John Howard, a veteran Capitol reporter who most recently served as Sacramento bureau chief for the *Orange County Register,* which he left in December to become the *Journal's* senior political editor. Howard worked for The Associated Press for 22 years in Sacramento before switching to the *Register* in Feb. 2001. In addition, Dagmar Thompson, who is responsible for the magazine's graphic evolution, will remain as art director. Finally, author Lou Cannon continues to serve as a consultant and contributing editor.

They left California Journal better than they found it.

Dave and Jim will not be easy to replace. A publication such as the *Journal* flourishes because talented people come forward to devote their energies and expertise as stewards of its health and reputation. In that regard, Dave Lesher has been an outstanding steward. Dave came on board in December 2001 after a distinguished career with the *Los Angeles Times* and a year as journalist-in-residence with the Public Policy Institute of California. He brought a vibrant and timely brand of journalism to the magazine, highlighted by his personal coverage of the 2002 gubernatorial election and 2003 recall of Governor Gray Davis — coverage that proved, in several cases, to be groundbreaking. He pioneered in calling attention to the voter anger that lay at the heart of the recall, a story republished in several of the state's leading newspapers. He put together a special issue on the 25th anniversary of Proposition 13, recruiting Peter Schrag to write an opening essay that, again, was reprinted in newspapers around the state. He conducted a prescient Q&A interview in August 2002 with Arnold Schwarzenegger, who then was promoting after-school programs via a ballot initiative. He devised an editorial arrangement with *National Journal* magazine to reprint its stories and provide our readers with a national perspective on issues of importance to California.

Dave's background in daily journalism sparked a relentless push for timeliness that resulted in a change of publication schedule enabling the *Journal* to send several stories to the printer only one day before the magazine hits the street. In addition to providing "big picture" stories on issues and elections, Dave also began a pair of features that sought to connect readers with an insider's view of Sacramento: "People" pages that highlight the comings and goings of key players in California government and politics; and "From the Floor" that records legislative votes on important or highly publicized bills. Those features became instantly popular with readers both inside and outside Sacramento and were due in large measure to Jim Evans, who brought them to life under Dave's direction. Working with Dagmar Thompson, Dave also helped guide the *Journal's* enhanced use of color layouts, especially for lead stories and front-of-the-book features.

One of the highest compliments one can pay to people who devote a singular piece of their lives to an enterprise such as *California Journal* is that they left that enterprise substantially better than they found it.

That is true of Jim Evans and true, even more notably, of David Lesher.

A.G. Block is publisher of California Journal. *Comments on this column may be sent to comments@californiajournal.com.*

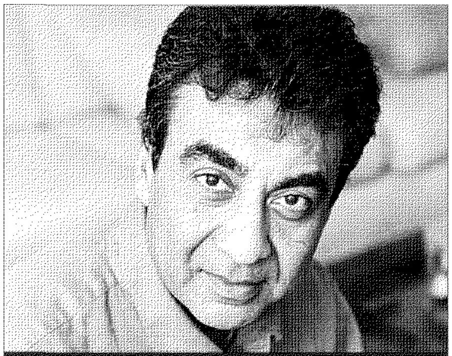
LEADERSHIP AWARD
The California Wellness Foundation

The California Wellness Foundation

2003 California Peace Prize

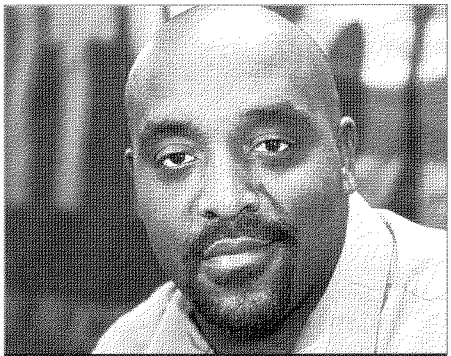
Karen Bass, Community Coalition, Los Angeles

"Last year we had 600 homicides in Los Angeles. We are in a state of emergency with regard to homicides. But nobody has declared it!"



Azim Khamisa, Tariq Khamisa Foundation, San Diego

"When the kids see me side by side with the grandfather of my son's killer, it is the first time in their young lives they have actually seen an alternative to violence."



Bo Taylor, Unity One, Los Angeles

"I've been to over 200 funerals, so it hurts. For me, the biggest reward is knowing that somebody's life may be saved."

Promoting Healthier Communities in the Fight Against Violence

The California Wellness Foundation is proud to recognize its 2003 California Peace Prize honorees. Each will receive a cash award of $25,000 as an acknowledgement of their commitment to prevent violence and promote peace in their communities.

After a decade of declining crime rates, violence is on the rise again in our communities. Prevention programs have proven successful by saving lives and money – up to $3 for every $1 invested. This year's honorees have influenced thousands of lives through their work to promote violence prevention strategies. Frustrated by the escalating violence in their communities, Karen Bass, Azim Khamisa and Bo Taylor decided to do something about it. Among their individual achievements, they reduced "hot spots," such as liquor stores, where easy access to alcohol contributes to violence, taught kids about the tragic consequences of violence, and provided gang members alternatives to lives of crime.

The California Wellness Foundation recognizes these heroes for their contributions to improving the health of their communities and demonstrating through their actions that violence can be prevented. To learn more about their work and the Foundation, please visit **www.tcwf.org**.

The California Wellness Foundation
Grantmaking for a Healthier California

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FULFILLING THE

More than 35 years ago, the University of California adopted the mission of an institute that combines quality research with academic access to all of the state's brightest students. As Robert Dynes steps in as the new UC president, he must update the mission to reflect an era of shrinking budgets and growing populations.

By Pamela Burdman

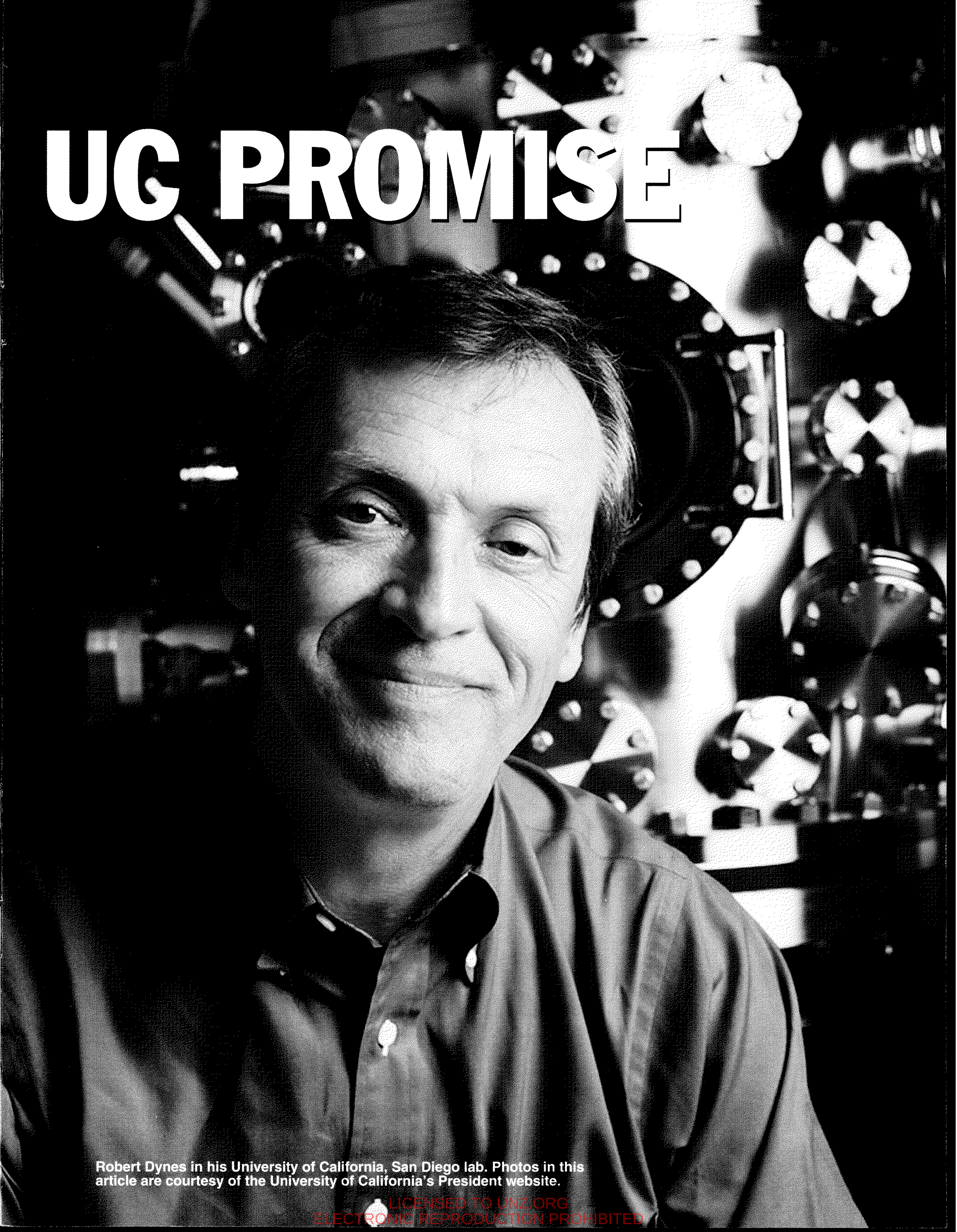
It has been more than 35 years since Clark Kerr left as the University of California's 12th president. But his death last month was a distressing reminder for many at UC who worry that Kerr's inspirational legacy, which looms large over all of the nation's public universities, could be dying with him.

Kerr was architect of California's Master Plan for Higher Education, a national model for public colleges and universities. Embodied in the plan was Kerr's concept of a quality research university that also provides academic access to the very brightest high school students in California. Now the state's budget problems could imperil the plan's promise of a UC slot for the top one-eighth of high school students. They could also disrupt the plans for opening a 10th campus in Merced — the first new one since Kerr's time.

Since 1970, UC's budget has fallen from about 7 percent of total state spending to just 4.1 percent, a pattern being repeated around the country. As the whole pie shrinks, the task of maintaining UC's excellence is even more challenging. Students are already angry about a 40 percent tuition hike over the past two years, faculty are grumbling about salary freezes, the federal government is threatening to pull the contracts UC has had to run three national science laboratories for more than 50 years, and the system's admissions policies continue to provoke controversy around the state.

On his final day in the job last October, out-going UC President Richard C. Atkinson warned that if budgets didn't improve, the university system serving 200,000 students was heading for "disaster." The man the system is now counting on to avert that outcome is Robert C. Dynes, a nationally respected physicist who left his job as UC San Diego chancellor to succeed Atkinson on October 2. No one has the illusion that task will be easy. Just consider Dynes' first week on the job. On day two, a front-page story in the Los Angeles Times contained a critical assault on UC Berkeley's admissions policies from John Moores, chairman of the UC Board of Regents. On day four, Governor Gray Davis, a self-professed friend of higher education and Atkinson buddy, lost the recall election to Arnold Schwarzenegger, whose views on higher education are unknown.

UC PROMISE



Robert Dynes in his University of California, San Diego lab. Photos in this article are courtesy of the University of California's President website.

"Bob Dynes probably couldn't have come in at a worse time," commiserated his counterpart at California State University, Chancellor Charlie Reed.

Dynes acknowledges hesitating before accepting the role. "I knew that I would be facing these problems," he said. "I could have always done science. What pushed me over the fence was the realization that no matter what science I could have done, I would not and could not have the same impact [that] I could have in taking on this job."

Dynes, 60, a national expert on semiconductors and superconductors, joined the UCSD faculty in 1991 after a 22-year career at AT&T Bell Laboratories. He climbed quickly through the UC ranks to succeed Atkinson as San Diego's chancellor in 1996.

At UCSD, Dynes was known for creative problem-solving and a calm approach to building consensus. Enrollments grew by 25 percent, and the campus continued to do well in the research area, ranking sixth nationally in federal research grants at the end of his tenure. Dynes also put an emphasis on collaborations between university researchers and the private sector, and income from technology developed on campus grew by 76 percent during this tenure. These included wireless technologies licensed by Qualcomm and a host of biotech start-up companies based on UCSD patents.

Though a better listener than speaker by reputation, Dynes hasn't been shy about speaking, and his personal story lends itself to the job. Born and raised in Ontario, Canada, Dynes gave up the idea of a hockey career to become the first in his family to attend college. He then continued with graduate school at a physics professor's urging.

In November, he told a group of faculty he still remembers the deep impression left by a professor's visit to his sixth grade class, underscoring his commitment to the university's outreach programs.

This year, UC outreach programs were slashed by 50 percent. Within a few weeks of the faculty powwow in November, the goal of preserving the programs became more elusive when state Finance Director Donna Arduin recommended axing the remaining 50 percent. Her plan would eliminate programs in existence since the 1970s to help prepare minority students to attend UC. After the 1996 passage of Proposition 209, which halted affirmative action policies in government, those programs were made race-neutral and, with the Regents' blessing, expanded in order to reach more disadvantaged students.

Robert Dynes, a formal portrait.

Arduin hinted at yet deeper cuts when she told a legislative committee that UC and CSU are oversubsidized. To Dynes, statements like that reveal the need to better convey the value of a research university, a role he seems to have embraced whole heartedly. He began with a series of web chats with the UC community in his first weeks in office.

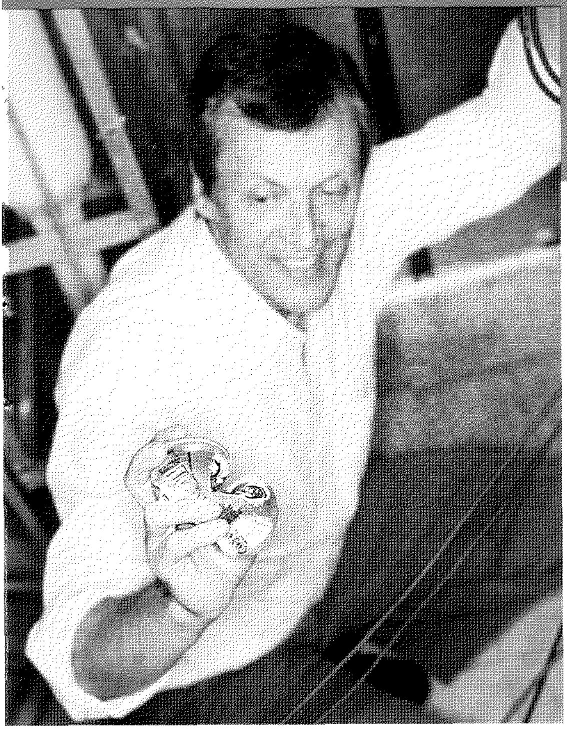
In early December, Dynes convened a forum on the university budget at UCLA.

"People expect the best of higher education in the country and believe they're paying for it, but have lost track of what it costs," he told the audience. "The governor and the state of California are focused on a couple of issues – one is K-through-12 schools and the other is the economy. If higher education isn't the transducer between K-through-12 and the economy, I don't know what is. California is an innovative and remarkably entrepreneurial state. We're the envy of the rest of the country Ö in part because of the creative blood that exists here in California, and that comes from higher education."

The web chats, the budget forum, and Dynes' decision to forgo an inauguration in favor of an "inaugural tour" to every UC campus are emblematic of his everyman touch. So are his public moves to eschew UC's elitist reputation and work closely with CSU and community colleges. He told the press that two of his first calls in office were to Reed and to community colleges chancellor Thomas Nussbaum, both of whom joined him at the budget forum.

And during his first regent's meeting, he became the first president in recent memory to walk out and talk to students. After loud chanting and drumming reached inside the conference room at UCLA's Sunset Village, Dynes strolled out the door and borrowed a student's megaphone. "You are a noisy and powerful group," he told the students, though he demurred on their demands to hold future regents meetings at UCLA. Regents like Dynes' easy manner. "He's not burdened by ego. He's comfortable to be around, and he doesn't take himself too seriously," said Regent John Davies.

"People expect the best of higher education in the country and believe they're paying for it, but have lost track of what it costs."
— Robert Dynes



Robert Dynes conducting a demonstration in his lab.

Those were among the qualities that won over the regents who reviewed the 300-odd candidates, including UC Santa Cruz chancellor M.R.C. Greenwood.

Some newspaper accounts speculated that his marriage to physicist Frances Hellman, daughter of San Francisco financier Warren Hellman, a UC Berkeley alumnus and major donor to Democrats and the university, played a role in pushing Dynes to the forefront. But insiders deny that. They say a more relevant qualification was Dynes' experience with the national labs – a familiarity that could lend both expertise and credibility to UC now that the Department of Energy plans to re-open competition for managing the $4-plus billion dollar enterprise, which are responsible for the nation's weapons stockpile.

For more than two decades, Dynes has worked as an advisor and consultant to the labs' physics research and weapons programs. He was also vice chair of UC's national lab council and member of a board overseeing the Los Alamos nuclear lab.

Lab management came under scrutiny first, in 1999, when scientist Wen Ho Lee was accused of spying for China. Though Lee was cleared, UC was faulted for lax security. A year ago, a bigger blow came with charges of fraud and misuse of federal funds. In April, Energy Secretary Spencer Abraham cast blame on the university and decided to open the contracts to other bidders (a move seen by some as an attack on California by Republicans with ties to the University of Texas).

Some of Dynes' first actions as UC president were to appoint a vice president for lab management and win the regents' approval for creating a separate Board of Directors for the labs. Though UC is preparing as if it will compete for the federal contract, Dynes says the regents won't make an official decision until after authorities announce the criteria and the timelines in the second half of 2004. The competitions are expensive to enter, and the current budget squeeze means UC would have to look to non-state funds to cover the cost.

Dynes will also have to act soon on appointing new chancellors to fill vacancies at the Berkeley campus and his former campus in San Diego. And he will have to balance pressure to complete construction at Merced and maintain funding for other campuses. Finally, amid the fiscal problems, he has had to defend high pay among some of UC's top executives, including his own salary of $395,000.

Among the thorniest problems he will face are those on the minds of the noisy protesters at UCLA, the interlocking issues of enrollment funding, admissions criteria, outreach programs, and minority enrollment.

UC admission policies have changed in recent years, de-emphasizing the SAT exam and adopting a

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"comprehensive" review policy very similar to that favored last year in a U.S. Supreme Court decision involving the University of Michigan. But in his critical report last fall, Regent Moores questioned why 3,200 students with SAT scores above 1,400 were turned away by UC Berkeley while 386 students scoring 1,000 or below were granted admission.

Dynes and UC Berkeley Chancellor Bob Berdahl said the high scorers either came from out of state, had withdrawn their applications, applied to highly competitive engineering majors, or earned below average grades in high school. The low-scorers, who included 241 black and Latino students, had high grades in high school or overcame their low SAT scores by excelling in areas such as athletics, music and community service, the officials said. In contrast to Moores' claims that incoming classes are academically weak, UC insists that incoming students are stronger than ever.

Questions involving admissions are far from settled, and against the backdrop of budget problems will be tough to resolve. Among the questions under debate:

Should UC cap enrollment, breaking with the Master Plan, if legislators carry through on their plan to deny money for increased enrollment? Or, if, as some suspect, UC is currently capturing more than the top 12.5 percent of high school students, how can UC revise eligibility criteria without changing rules midstream or disproportionately hurt the chances of disadvantaged kids? Should UC impose drastic tuition hikes to back-fill money denied by the state – or open top campuses to more non-California students with their higher tuition dollars, at the risk of alienating California taxpayers?

"Bob Dynes is going to be willing to be bold, to do things which have not been done before," said former UCLA Chancellor Charles E. Young, now President of the University of California. "I think that's going to be required. The great achievement of the master plan was creating a system in which all of its parts could be excellent. If actions are taken that reduce the quality, they are not being true to the master plan."

Dynes looks to communication as part of the solution: defending admissions policies, but saying UC must explain them better. He has set up a study group of regents, administrators, faculty, and students to examine some of the enrollment questions. As for his own views, Dynes has said he would sooner cap enrollment than damage the institution's quality. But he has also been outspoken about diversity, appointing himself Chief Diversity Officer at UCSD when some questioned his commitment. If he has his way, diversity won't be pitted against quality.

"Diversity adds to the quality of an academic institution," he said in his first major policy address at a joint UC-Harvard conference. "There is no conflict or compromise. On the contrary, a monolithic student body or faculty results in a lower-quality education. We have to find ways of continuing to meet our historical commitments to the people of the state we serve – both now and 10, 20, 30 years in the future."

To Dynes, Kerr's writings are "almost a bible." If he successfully guides the university through the current crisis, his solutions could make UC a new model for how universities around the country can live in an environment very different from the one in which Kerr presided.

"Resources are going to be dramatically reduced for the foreseeable future," notes Young. "Demands on universities in terms of numbers and in terms of social needs are going to be even greater. A lot of leadership is going to have to come from the University of California. Despite the problems it's facing, and maybe in part because of the wrenching that has just occurred through the recall and election of a total outsider [as governor], California may very well be the first to come up with a modus operandi in this new era."

Pamela Burdman is a freelance writer in the Bay Area and former higher education reporter for the San Francisco Chronicle. *Send comments to* **comments@californiajournal.com**

Robert Dynes

The early years

Personal:

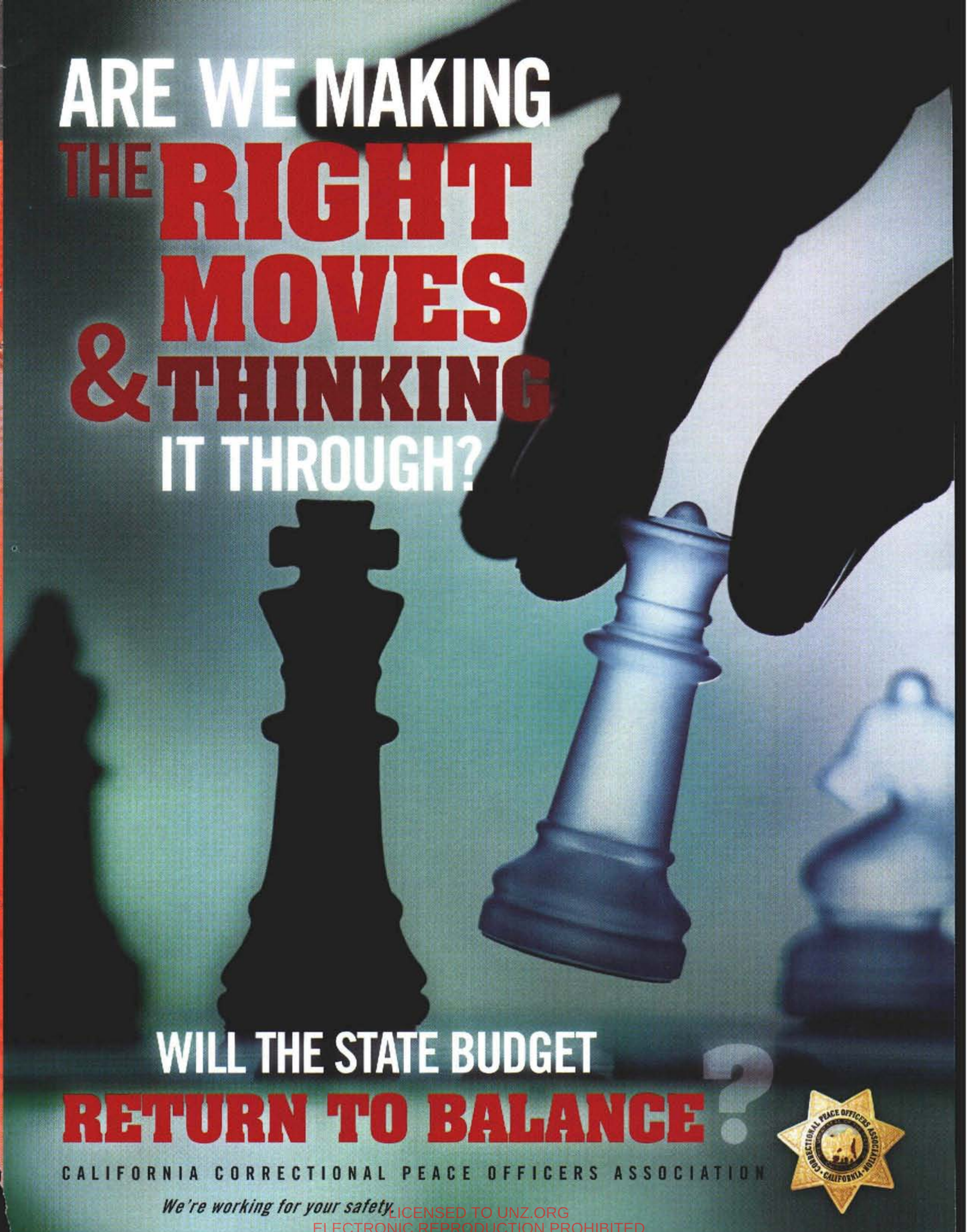
Born: London, Ontario, Canada
Married: Frances Dynes Hellman, UCSD professor of physics

Education:

BA from University of Western Ontario, in mathematics and physics.
MA and PHD in physics from McMaster University
Fellow of the American Physical Society, the Canadian Institute of Advanced Research and the American Academy of Arts and Science

Career:

Chancellor of UCSD, 1996-2003
Professor of Physics, UCSD 1991-1996
ATT&T Bell Laboratories, Department head of semiconductor and material physics research and director of chemical physics research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THE RIGHT MOVES
& THINKING
IT THROUGH?
WILL THE STATE BUDGET
RETURN TO BALANCE?
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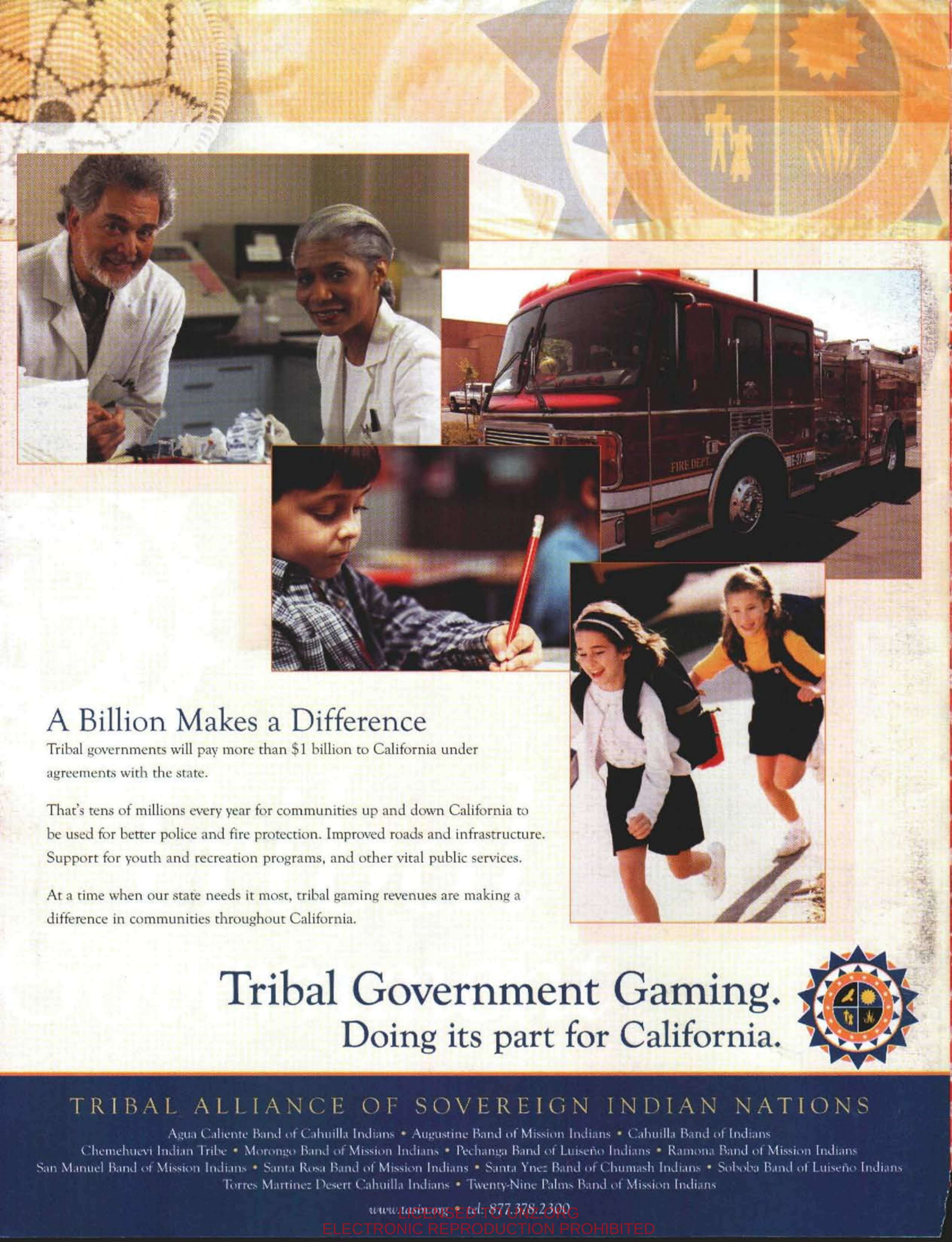

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TRIBAL ALLIANCE OF SOVEREIGN INDIAN NATIONS

Agua Caliente Band of Cahuilla Indians • Augustine Band of Mission Indians • Cahuilla Band of Indians
Chemehuevi Indian Tribe • Morongo Band of Mission Indians • Pechanga Band of Luiseño Indians • Ramona Band of Mission Indians
San Manuel Band of Mission Indians • Santa Rosa Band of Mission Indians • Santa Ynez Band of Chumash Indians • Soboba Band of Luiseño Indians
Torres Martinez Desert Cahuilla Indians • Twenty-Nine Palms Band of Mission Indians

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